

INVESTMENT  
LESSONS  
FROM  
F1 RACING



CEO INTERVIEW  
ASCENDIS'S  
KARSTEN WELLNER  
Banking on the wealthy

COMMODITIES  
'COAL SECTOR  
RIPE FOR THE  
PICKING'

# finweek

ENGLISH EDITION

fin  
24

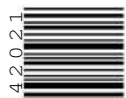
FIND US AT:  
[fin24.com/finweek](http://fin24.com/finweek)

15 October 2015

# YOU JUST LOST R220 billion DUE TO FINANCIAL MISMANAGEMENT AT SA'S STATE-OWNED ENTERPRISES WHAT HAPPENED AND WHAT'S NEXT?

SHARE VIEWS ON:  
PICK N PAY  
MONDI  
BALWIN PROPERTIES  
SYGNIA  
HOLDSPORT

SA IS NOT IN THIS ALONE, SAYS SIZWE NXEDLANA

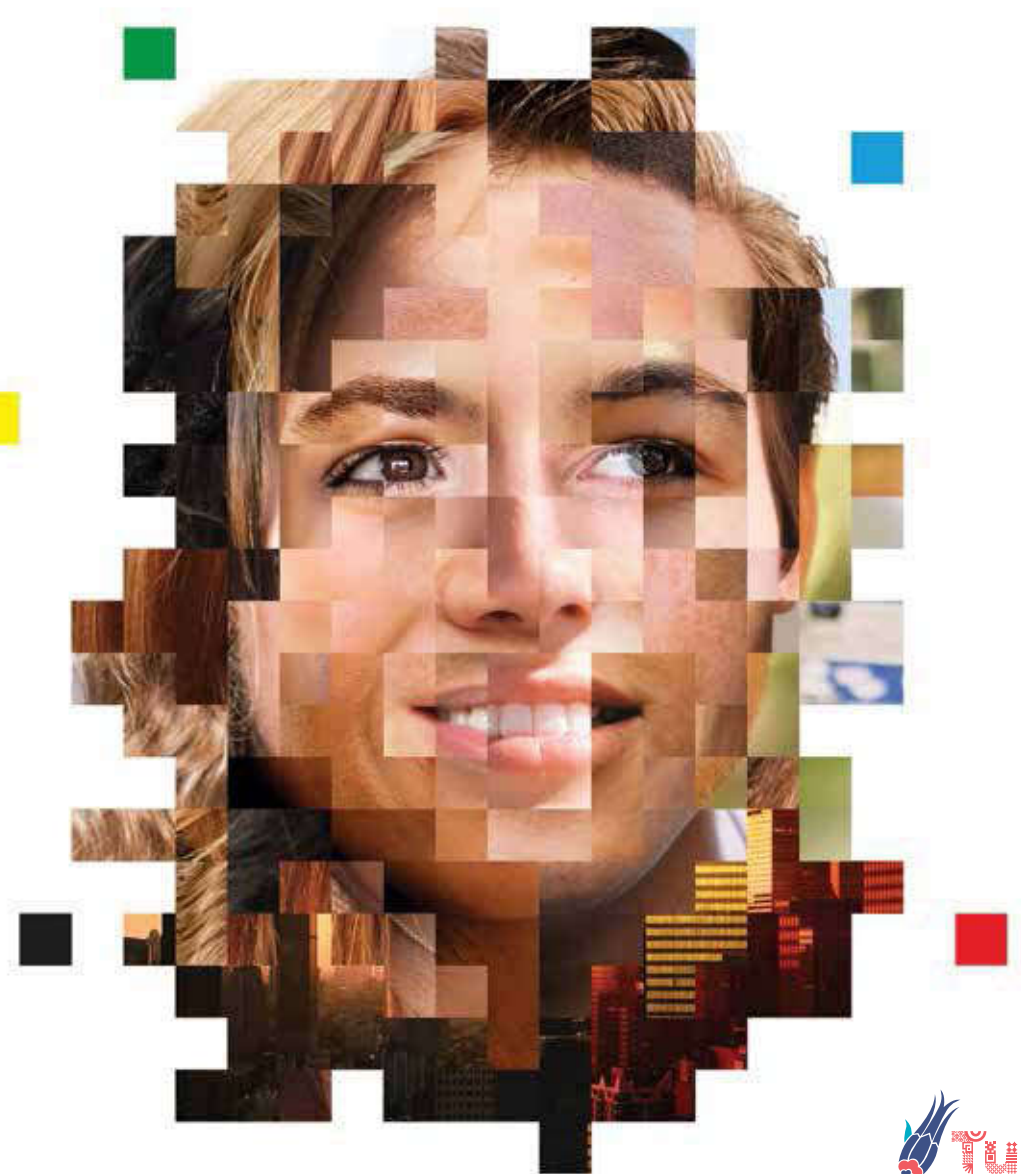


9 771024 740005

SA: R27.50 (incl. VAT)  
Other countries: R24.12 (excl. VAT)

# G20. TOGETHER FOR INCLUSIVE AND ROBUST GROWTH.

We are united to build strong economies with the power of youth.





from the editor

JANA MARAIS

At a breakfast meeting late in September, EFF leader Julius Malema spent about two hours talking policy and answering questions from members of the American Chamber of Commerce (AmCham), who are understandably quite concerned about his party's views on everything from land reform to nationalisation of key sectors of the economy.

Look at state-owned enterprises like SAA and the Post Office, AmCham's members sighed. How can you expect more state-run institutions to be good for the economy?

As Malema rightly pointed out, losing money and going bust isn't the exclusive domain of state-run enterprises. The private sector screws it up pretty regularly too.

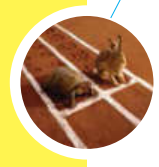
Altech, for example, showed it is still prone to making poor decisions when it announced the closure of video-on-demand service Altech Node after just a year in business, losing R189m before interest, tax, debt and amortisation in the process.

This is cheap, however, when compared to its ill-fated foray into East Africa, where it lost close to R2bn and which partly led to parent company Altron buying out Altech and delisting it from the JSE in 2013.

That doesn't mean, of course, that state-owned enterprises (SOEs) should simply be forgiven every time they stand cap in hand for a new government bailout. Even the fiercest economic freedom fighter cannot possibly defend the record loss of R14.5bn – enough to fund the Northern Cape's government for a year and a half – reported by PetroSA for the 2015 financial year (see page 26).

Was there even the most basic budgetary system in place? And if you were running a multinational oil or gas company, would you be keen to hand over, for free, 20% of your new project to PetroSA? ■

## Even the fiercest economic freedom fighter cannot possibly defend the record loss of R14.5bn reported by PetroSA.



# contents

## Opinion

- 4 **Sizwe Nxedlana:** It's not just us
- 6 **Piet Naudé:** It's a matter of perspective

## The week in brief

- 8 News in numbers
- 10 **Letter from Nigeria:** Buhari lays down the law
- 12 Shopping centres driving commerce and communities
- 13 The economic power of gender equality
- 14 **Minority Report:** The future of marketing has arrived

## Marketplace

- 16 **Fund in Focus:** Inflation not getting this fund down
- 17 **House View:** Phumelela, Brait SE
- 18 **Killer Trade:** One last surge is possible
- 19 **Simon's Stock Tips:** Sygnia, Balwin Properties, Pick n Pay, Resource stocks, Capitec
- 20 **Invest DIY:** Don't bet on quick wins
- 21 **Pro Pick:** The right retail exposure
- 22 **Money:** Keep your investments on track
- 23 **Technical Study:** Stalwarts take a beating on JSE
- 24 **Directors & Dividends:** Dealings and payouts

## Cover story

- 26 PetroSA R14.5bn loss adds to parastatals' woes

## In depth

- 32 Mauritius: More than just sand and sun
- 36 Is coal rising from the ashes?
- 37 Sibanye goes for Aquarius Platinum
- 38 The minimum wage debate

## On the money

- 40 **Spotlight:** Ascendis banks on wealthy to buck economic trend
- 42 **Small Business:** Getting a handle on your VAT
- 44 **Life:** Step into my coffice
- 46 **Piker**

## EDITORIAL & SALES

**Editorial Editor** Jana Marais **Deputy Editor** Anneli Groenewald **Managing Editor** Ruwaydah Harris  
**Journalists And Contributors** Simon Brown, Lucas de Lange, Piet Naudé, Moxima Gama, Schalk Louw, David McKay, Shaun Murison, Sizwe Nxedlana, Liesl Peyper, Ciaran Ryan, Jaco Visser, Glenda Williams **Sub-Editors** Stefanie Muller, Jana Jacobs **Office Manager** Thato Marolen **Layout Artists** Beku Mbotoli, Tshebetso Ditabo, Zandri van Zyl **Publisher** Sandra Ladas **General Manager** Dev Naidoo **Advertising** Monice Kruger 011-877-6153 / monice.kruger@finweek.co.za **Circulation Manager** Armand Kasselman 021-443-9975

Published on behalf of Media24 by New Media Publishing (PTY) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092  
 Postal Address: PO Box 784698, Sandton, Johannesburg, 2146 Tel: +27 (0)11 713 9601 Head Office: New Media House, 19 Bree Street, Cape Town, 8001  
 Postal Address: PO Box 440, Green Point, Cape Town, 8051 Tel: +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 Email: newmedia@newmediapub.co.za  
 Executive Directors Group Commercial Director: John Psillos Managing Director: Bridget McCahey Non Executive Director: Ima van Zyl  
 Printed by Paarlmedia and Distributed by On The Dot Website: <http://www.fin24.com/finweek> Overseas Subscribers: +27 21 405 1905/7

## ENQUIRIES

SUBSCRIBERS  
 087 740 1019  
 subs@finweek.co.za

Fax  
 021 405 1031

SHOPS  
 0861-888-989  
 assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

FINWEEK SUBSCRIBES TO THE SOUTH AFRICAN PRESS CODE WHICH COMMITTS US TO JOURNALISM THAT IS TRUE, ACCURATE, FAIR AND BALANCED. IF YOU THINK WE ARE NOT COMPLYING WITH THE CODE, CONTACT THE PRESS OMBUDSMAN AT 011-484-3612 OR [ombudsman@presscouncil.org.za](mailto:ombudsman@presscouncil.org.za) © FINWEEK 2011 ALL RIGHTS RESERVED. TO INQUIRE ABOUT PERMISSION TO REPRODUCE MATERIAL CALL OUR ARCHIVE AT 021-406-3232.





# It's not just us

Recent disappointing economic growth is not exclusive to SA, with economies similar to ours also performing poorly.

**n**ews that the South African economy contracted by an annualised 1.3% in the second quarter after growing by 1.3% in the first was as surprising as it was disappointing.

However, it wasn't only us if that's any consolation. Over the same period, several other economies similar to ours also registered negative growth. The Brazilian economy contracted by an annualised 7.2%, Russia by 6.7%, Taiwan by 6.6%, Singapore by 4% and Canada by 0.5%. Sub-Saharan Africa's commodity producers have also been slowing.

Two global themes have buffeted emerging market (EM) economies and in particular commodity producers in the last 12 months. The noticeable slowdown in Chinese economic growth is perhaps the major source of weakness. However, associated with the slowdown in Chinese growth has been changing financial market expectations on the timing of interest rate increases by the Federal Reserve (Fed). This has increased market volatility and has reduced capital flows to EMs, exacerbating their pain.

## What's wrong with China?

The Chinese economy has been affected by two major headwinds. The first headwind is the massive debt of its private sector. According to data from the Bank for International Settlements (BIS), Chinese private sector debt (households and non-financial corporates) has increased from 117% of GDP during the fourth quarter of 2008 to almost 200% of GDP in the first quarter of 2015.

## Two global themes have buffeted emerging market economies and in particular commodity producers in the last 12 months.

For Africa's non-oil commodity exporters such as Zambia, Botswana and the DRC, minerals and metals usually account for more than

60% of exports.

This debt must be a concern to China's policymakers as it poses financial stability risks. The country's policymakers responded to the high debt burden by keeping monetary policy tight through relatively high interest rates and high

reserve requirement ratios. This combined with low inflation meant that the real cost of borrowing in China has been high. There is evidence that tight monetary policy did have the desired impact of slowing credit growth. However, the monetary hand brake has also slowed GDP growth resulting, more recently, in a reduction in interest rates. The second reason behind weak Chinese growth has been the significant appreciation of

China's exchange rate. On a trade-weighted basis China's exchange rate is 29% stronger than its mid-2011 level. This has led to a loss of export competitiveness.

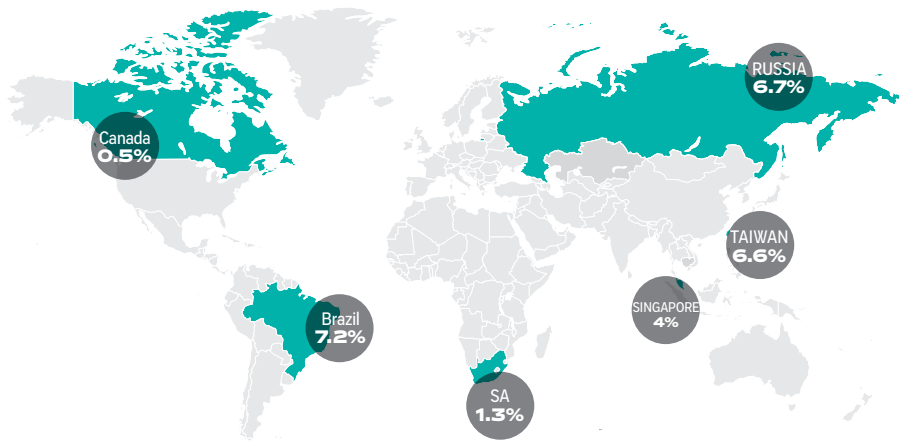
The slowdown in Chinese growth has negatively impacted several important sub-Saharan African countries via the commodity price channel. The direct impacts are on exports and government tax revenue. For sub-Saharan Africa's large oil producers such as Nigeria and Angola, oil accounts for around 90% of exports. Oil's contribution to fiscal revenue is over 50%. For Africa's non-oil commodity exporters such as Zambia, Botswana and the DRC, minerals and metals usually account for more than 60% of exports. The contribution to fiscal revenue is smaller but not insignificant.

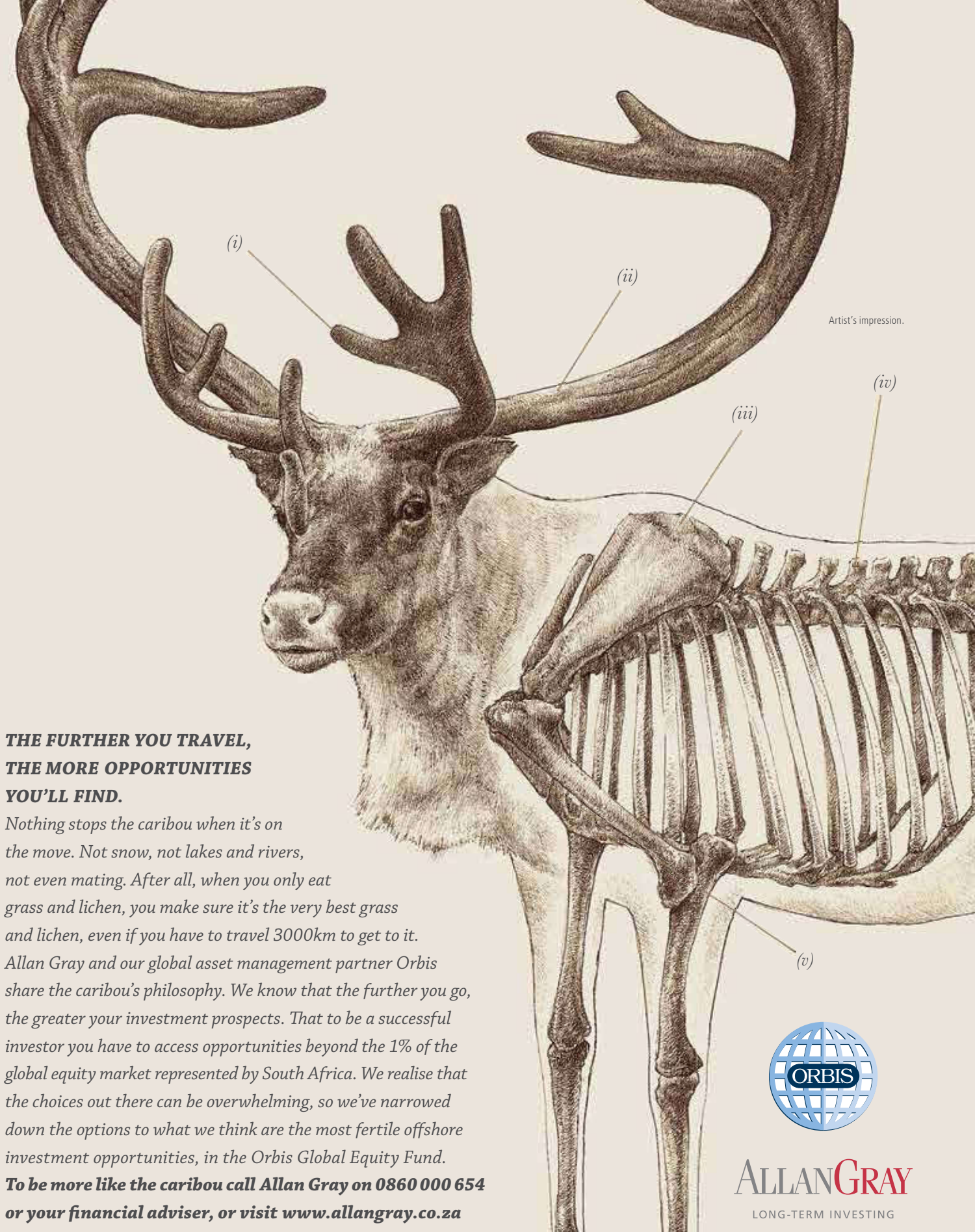
The results of the China induced commodity price decline on sub-Saharan African countries including South Africa, is deterioration in the terms of trade; deterioration in the current account and in government finances; and a depreciation of the exchange rate, leading to higher inflation. Central banks are responding to higher inflation with higher interest rates. Governments have and will be forced to continue to respond to lower tax revenue with fiscal consolidation. This whole process can potentially aid external adjustment because higher inflation and interest rates curb domestic spending, which tends to reduce imports. The weaker exchange rate also curbs imports while supporting exports. However, this also tends to be a painful process that is associated with weak growth. Ultimately, it can be viewed as a national belt-tightening exercise in order to adjust to a new lower revenue/income reality. ■

editorial@finweek.co.za

Sizwe Nxedlana is chief economist at FNB.

## CONTRACTION IN SIMILAR ECONOMIES (ANNUALISED)





**THE FURTHER YOU TRAVEL,  
THE MORE OPPORTUNITIES  
YOU'LL FIND.**

Nothing stops the caribou when it's on the move. Not snow, not lakes and rivers, not even mating. After all, when you only eat grass and lichen, you make sure it's the very best grass and lichen, even if you have to travel 3000km to get to it. Allan Gray and our global asset management partner Orbis share the caribou's philosophy. We know that the further you go, the greater your investment prospects. That to be a successful investor you have to access opportunities beyond the 1% of the global equity market represented by South Africa. We realise that the choices out there can be overwhelming, so we've narrowed down the options to what we think are the most fertile offshore investment opportunities, in the Orbis Global Equity Fund. **To be more like the caribou call Allan Gray on 0860 000 654 or your financial adviser, or visit [www.allangray.co.za](http://www.allangray.co.za)**



**ALLAN GRAY**  
LONG-TERM INVESTING



STATE OF THE NATION

# It's a matter of perspective

There are many things happening politically and economically in SA that can lead to a negative state of mind. But what if we look at things through a different lens?

It's not easy to be in business these days – no matter where you are in the world. We are in tight situations. There is a slowdown in China and the euro area is under pressure in financial, political and refugee terms. The US economy seems to be picking up, but we aren't sure yet.

It's not easy to be in business in South Africa in particular.

This has to do with business itself. Consumers are in debt; the labour context is inflexible and trade unions vie for members by putting forward outrageous demands.

**It has to do with government: We get mixed messages on economic policy and we are not sure of the actual commitment to the National Development Plan. We pay our taxes, but we are unsure whether public money works optimally for all of us.**

It also has to do with the broader social context in which we live: A history of racial inequality that does not go away; a crime-ridden society as we have recently heard once again; and human suffering due chiefly to unemployment.

How does one respond to a situation like this?

The easy option is to join the chorus of doom and feed your mind with negativity. This has brought many business people to the point where they are unable to read the context in a rational way and identify new opportunities.

The most powerful weapon in business is our minds and the way we interpret the world around us. Markets are deeply emotional.

Let us look at a number of examples:

## Taxis

It is easy to generalise and think of taxi drivers as reckless and a law unto themselves driving around in vehicles that might as well be coffins. Or you can think about the thousands of successful entrepreneurs, employing a few thousand more drivers and conductors, moving millions of people to work every day in the absence of a good public transport system.



The easy option is to join the chorus of doom and feed your mind with negativity.



## Eskom

Your default thinking is of public sector incompetence and loss of economic growth and foreign investments. Or you can see a major success story in bringing clean, privately owned energy into the grid, and a government that is slowly learning the lesson that it is cooperation with business that will move us forward.



## Malema

There is sentiment amongst some that Julius Malema is a racist populist with sure-fail economic views.

Yes, he has shaken up parliament a little, but we are unsure whether this will bring actual benefits to our governance. Or you may see a reconfiguring political landscape that will bring new powers to the left of the ANC (think EFF and breakaway unions) while moving value-based people in the direction of the DA (with a credible black leader). The result will be a much more vibrant multiparty democracy with a ruling party held accountable by voters.

## Commodities slowdown

Your first reaction is to think of loss of exports and the negative effect on many local communities dependent on, for example, mining. Or you can think of an injection of energy into diversification policies in emerging economies. The idea that more than 90% of national income is to be derived from one or two products (oil and gas, for example) is not only ecologically unsustainable, but poses a huge financial risk as well.

Only a crisis will spur this continent into action to ensure Africa uses her fantastic potential in agriculture, tourism and IT applications.

You can write down your own words in inverted commas. Step aside and think against the obvious. If you can apply contrarian thinking in the markets, why not in real life?

It all depends on interpretation. ■



The idea that more than

90%

of national income is to be derived from one or two products (oil and gas, for example) is not only ecologically unsustainable, but poses a huge financial risk as well.

editorial@finweek.co.za



Prof. Piet Naudé is director of the University of Stellenbosch Business School. Follow him @PietNaudéUSB.



“To what do you owe  
your trail of success?”

“Our footprint  
in Africa.”

#### Global Finance

Best Sub-Custodian Bank in Africa.  
Best FX Provider in Africa.  
Best Overall Bank for Cash Management,  
Payments & Collections and Liquidity Management  
in Africa.

#### The Banker

Best Investment Bank in Africa.

#### GTR Leaders in Trade

Best Trade Bank in Sub-Saharan Africa.

#### emeafinance Awards

Best Investment Bank in Africa.  
Best Treasury Services in Africa.

#### PFI Awards

Best Project Finance Bank in Africa.

[standardbank.co.za/cib](http://standardbank.co.za/cib)



Corporate and Investment Banking

**Standard Bank** Moving Forward™

Also trading as Stanbic Bank

- >> **LETTER FROM NIGERIA:** What former oil minister's arrest means
- >> **IN THE NEWS:** The economy of malls
- >> **TREND:** *Minority Report* meets marketing



**Matthias Müller**  
Newly-appointed CEO of  
Volkswagen AG

## VW TO CUT COSTS

# €6.5bn

**Volkswagen's new CEO**, Matthias Müller, warned employees that the company was looking to cut costs as it was preparing itself for fines and potential lawsuits following the recent diesel emissions scandal. While VW has already set aside €6.5bn (R99.3bn) to cover the costs related to the scandal, *ft.com* reported Müller as saying that costs would be higher, and that VW would have to "save massively to manage the consequences of the crisis". He said all planned investments would be reviewed and anything that wasn't "absolutely necessary will be cancelled or postponed", according to *ft.com*.

## SA'S GROWTH FALTERS

# 1.4%

**The International Monetary Fund (IMF)** has slashed its growth forecast for South Africa to 1.4% this year from a previous estimate of 2%. It cut its global growth outlook to 3.1%, the worst since the global recession of 2009. The World Bank also cut its growth forecast for SA to 1.5%. At these growth rates, at least 14% of South Africans would remain in extreme poverty and unemployment would increase, the World Bank said. For 2016, the IMF is expecting growth of 1.3% in SA, while the World Bank is slightly more optimistic with a forecast of 1.7%.

## AVOIDING TAX

# \$2.1tr

**The 500 largest US** companies hold in excess of \$2.1tr (R28.4tr), combined, in accumulated profits offshore in order to avoid US taxes, Reuters reported. It said that research by the Center for Tax Justice, and the US Public Interest Research Group Education Fund, found that 75% of companies on the Fortune 500 list operated "tax haven subsidiaries in countries like Bermuda, Ireland, Luxembourg and the Netherlands". Should these companies repatriate the funds, they would owe the US government \$620bn (R8.4tr) in taxes.

## GERMAN MANUFACTURING DECLINES

# 1.8%

**Germany, the largest economy** in Europe, reported an unexpected drop of 1.8% in manufacturing orders in August, *The Wall Street Journal (WSJ)* reported. This was on the back of a drop of 3.7% in demand from countries outside of the eurozone. Prior to the German economics ministry's announcement, economists predicted a month-on-month gain of 0.3%, according to WSJ. Goldman Sachs's Dirk Schumacher, however, told WSJ that business sentiments indicators were still solid, saying: "I don't think we are heading toward a big slowdown in the overall economy."



## ZEDER GROWS

# R2.5bn

The growth in the net value of Zeder Investments' underlying investment portfolio in the six months to the end of August. Zeder, with a focus on the agriculture, food and beverage sectors, grew its recurring headline earnings from investments by 67% over the period, mainly thanks to a strong performance by Pioneer Foods and its increased shareholding in Agri Voedsel. Its 27.1% in Pioneer remains its largest investment, representing 73% of the portfolio.

## BRAND VALUE

# \$170.3bn

The estimated value (R2.3tr) of the Apple brand, up 43% from last year, making it the world's most valuable brand, according to the latest Interbrand Best Global Brands report. Google, with an estimated brand value of \$120.3bn, up 12%, was ranked second. Facebook was a distant 23rd with an estimated value of \$22bn, despite showing the biggest jump in value of the brands surveyed. It's up 54%.

## DOUBLE TAKE

BY RICO



## THE GOOD

World Bank statistics show the number of people living in extreme poverty, or living on less than \$1.90 (R25.72) per day, is expected to fall to 9.6% of the global population this year, the lowest on record. While this means about 700m people continue to live in extreme poverty, the rate has dropped below 10% for the first time, and is significantly below the rate of 37.1% recorded in 1990.



## THE BAD

There has been a decline in the number of black South African CEOs at the country's Top 40 companies, with the proportion falling to 10% from 15% in 2012, according to the 2015 Jack Hammer Executive Report. Of the companies' 334 executives, only 21% were black South Africans, and only 10% of them were in core business roles such as business strategy, operations or finance – typically key positions to make it to CEO level – it found.

## THE UGLY

Business confidence in SA fell to a 22-year low in September to 81.6 points due to a struggling economy and uncertainty over the timing of rate hikes by the US Federal Reserve, according to the South African Chamber of Commerce and Industry (Sacci). As Sacci economist Richard Downing said to *Business Day*: It should serve as a wake-up call to policymakers that "something extraordinary" must be done to address the economic slowdown.

# TIME

IS ONE OF THE MOST IMPORTANT ELEMENTS  
IN THE COMPOUNDING FORMULA

# FOORD

GIVE YOUR  
INVESTMENTS TIME.  
BE PATIENT  
WITH THEM.

Save a fixed monthly amount for 10 years then allow the capital to compound for a further 30 years. The strategy produces twice the accumulated savings compared to saving monthly for 30 years\*. Ten years appears to do the work of 30. But it is the 10 years' saving compounded for 30 years that creates the result.

At Foord Asset Management we believe in investing for the long term. Our 30-year track record is proof that managing investment risk and compounding superior returns are key to the creation of exceptional wealth.

021 532 6988 | info@foord.co.za | www.foord.co.za

\* Calculations made using returns of 11.5% per annum  
Foord Unit Trusts Limited is an authorised Financial Services Provider

# Buhari lays down the law

'I'm sitting in a hotel bar in Kano, in Nigeria's north, when I get a message on my phone. 'Diezani's been arrested,' it says. A short few words but an absolutely enormous story for Nigeria.

The Diezani to whom the message refers is Diezani Alison-Madueke, Nigeria's minister for petroleum resources under the previous government. She's reportedly been arrested in London on money laundering and bribery charges by the International Corruption Unit of Britain's National Crime Agency.

Nigeria's Economic and Financial Crimes Commission (EFCC) is now investigating her at home, after reportedly collaborating with UK authorities on the investigation over the last two years.

For years, speculation about her conduct during the Goodluck Jonathan administration has circulated; that speculation has now crystallised into allegations. It was during Diezani's tenure that some \$20bn went missing from the state's oil revenues; put in national context, \$20bn could buy 434.7m barrels at current oil prices around \$46 a barrel. At average production of about 2.1m barrels a day, this represents more than six months of Nigeria's entire production. It's the difference between Nigeria being able to start diversifying its economy and not being able to do very much while the oil price is low.

So reports of her arrest are significant for the obvious fact that charges could eventually lead to the return of some funds, if indeed she has those funds.

It's also important because it shows the colour of President Muhammadu Buhari's money in his anti-corruption crusade and British Prime Minister David Cameron's increasing desire for his country to shed its reputation as a haven for laundered cash.

Many in Nigeria had expected the Buhari administration to leave Diezani alone: she's a close associate of Goodluck Jonathan, and some commentators had

supposed that might insulate her from the hunt for missing money. She is one of the biggest scalps that could have been taken, and her arrest will no doubt send shivers down various spines that have until recently been sitting in Nigeria's senate and gubernatorial villas. The message the EFCC seems to be sending? If we can go after her, we can go after you all.

At the other end of Nigeria's wealth spectrum, the possible arrest of former senior politicians is cause for celebration for many millions of people. It says that there's a president in power with action behind his anti-corruption promises. It says there's a chance that one day they'll see the return of

some of the many, many billions of dollars of oil wealth that should have been changing their lives since Nigeria discovered its crude in the 1950s, but has instead been spent on private planes, lavish parties and pearls that rival the size of ping pong balls.

This could be the beginning of something happening to benefit the many, not the few. It could also be that Diezani isn't charged or is found innocent of all charges.

It could be that not a single dollar is ever returned to Nigeria from whoever is behind the theft of its oil riches. However it plays out, watch very carefully, because it's going to be a fascinating time. ■

editorial@finweek.co.za

**There's a chance that one day they'll see the return of some of the billions of dollars of oil wealth that should have been changing their lives since Nigeria discovered its crude in the 1950s.**



It was during Diezani's tenure that some

**\$20bn**

went missing from the state's oil revenues; put in national context, \$20bn could buy

**434.7m**

barrels at current oil prices around \$46 a barrel.

## PWC BOOMS

# 10%

**Professional services firm PwC** has grown its global revenue by 10% to \$35.4bn in the year to end June, achieving double-digit growth in the Middle East and Africa (16%), North America and the Caribbean (12%) and Australasia and the Pacific Islands (11%). Its total workforce now tops 208 000, a record, with 53 000 people joining in the past financial year. Hein Boegman, CEO of PwC Africa, said the firm expects increasing growth in emerging markets in the next few years. It employs more than 10 000 people on the continent.



**#trending**  
on fin24.com

## SA braces for 'mother of all stay-aways'

On Wednesday, 7 October – also World Day for Decent Work – Cosatu planned to stage marches in all nine provinces to protest against higher taxes, e-tolls, job losses and other issues impacting on the working class.

07/10/15 10:08

## SA's most exclusive estates for super-rich revealed

The Zimbali estate near Ballito is SA's most exclusive estate for 2015, according to Hurst & Wills and New World Wealth, a global wealth intelligence and market research company. In second place was The Gentleman's Estate outside Paarl, followed by Pezula Private Estate outside Knysna, Fancourt near George, and Pearl Valley, also near Paarl.

07/10/15 10:08

## Greenpeace warns ANC to drop nuclear plans

The environmental NGO has asked ANC to drop nuclear energy, with its executive director, Kumi Naidoo, saying "organisations are mobilising" against a nuclear decision. "So the ANC can make the decision knowing full well that they will be blocked in court."

06/10/15 20:10

Gallo/Getty Images/Reuters

# SUCCESS STARTS WITH THE RIGHT PARTNER



Achieving excellence is your number one priority. Helping you get there is ours. What makes us a leading fuel marketer is the commitment we bring to transformation in the fuel industry through our strong B-BBEE credentials.

By understanding your particular business needs, we are able to provide agile solutions and service, which means you can focus all your energy on achieving success, while we fuel it.

To find out about Masana, visit [www.masana.biz](http://www.masana.biz)



By Glenda Williams

# Shopping centres driving commerce and communities

The shopping mall is not just about consumer retail therapy. South Africa's shopping centres are key drivers of commerce, providers of jobs and shapers of communities.

With almost 2 000 shopping centres covering over 23m square meters of space, South Africa has the sixth highest

number of shopping centres in the world, according to Nomzama Radebe, president of the SA Council of Shopping Centres' (SACSC). The reality though is that demand for retail space is dwindling as consumer spending comes under increased pressure. Even bankers and developers are taking a cautious view around retail property.

Inevitably, given the vast number of shopping centres, the battle for market share is heating up and questions around oversaturation and sustainability are being raised. Yet there are many factors that influence their sustainability, including rapid population growth; urbanisation and densification; an increasing middle-income population; and a growing number of international retail brands that could positively influence the retail tale.

But given that retail sales growth is down 0.3% on average over the past decade, the need for innovative thinking to remain relevant and appeal to consumers emerged as one of the main themes at SACSC's 19th Annual Congress held in Durban recently. Unsurprisingly, retailers and developers are focusing on customer experience and technology, two key factors driving retail universally. Speaking at the



Waterfall Corner in Midrand, Gauteng, owned by JSE-listed capital growth fund Attacq and developed by Atterbury Property Development, took the overall Spectrum Award for the best retail development at the recent SACSC awards held in Durban.

SACSC, Chris Sanderson, co-founder of The Future Laboratory, says today's consumer demands both a physical and digital experience. Physical shops are realising they cannot survive without digital channels and online retailers are increasingly opening physical shops to support their businesses. The 'phygital' concept, the combination of physical and digital stores, is one future-proofing retail strategy tipped to be the recipe for future retail success. "Research," adds Sanderson, "shows that the phygital consumer spends more."

Optimising alternative revenue has produced another innovation; pop-up stores, stores that are temporary in nature. Born out of the need to reduce vacancy gaps, the concept of the pop-up is one of the hottest trends in retail, says South African-born Bianca Levy-Campos, speciality leading coordinator Non-Iberia at international shopping centre specialist, Sonae-Sierra. "Not only does it relate to the consumer, it creates a buzz, creates engagement and has a surprise factor that all contribute to the customer experience."

An innovative method of driving footfall as well as addressing vacancy and affordability, the pop-up also allows brands to test locations and concepts at a reduced investment before committing to a long lease, while the concept of the "coop store" permits retailers to share space and costs, creating mini-stores within a store.

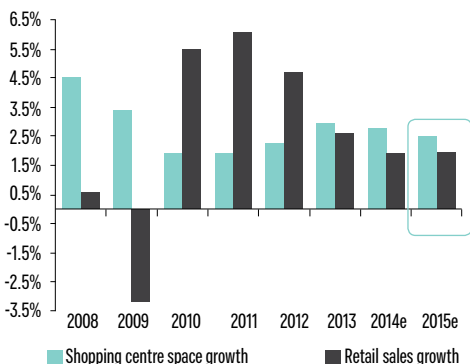
Shopping malls and retailers play a significant and valuable role in our economy and society, stresses Mike Kercheval, president and CEO of the International Council of Shopping Centers (ICSC). As massive generators of jobs, fiscal revenue and property taxes, as well as builders of communities and drivers of residential markets, shopping centres make a difference, he says. They are also cultural and social hubs, integrated with and central to the communities around them. "And," adds Kercheval, "it is rare that you build a shopping centre and property values around that centre don't increase." ■

editorial@finweek.co.za

**The 'phygital' concept, the combination of physical and digital stores, is one future-proofing retail strategy tipped to be the recipe for future retail success.**

## GROWTH COMPARISON:

RETAIL SALES VS SHOPPING CENTRE SPACE



## TRADING DENSITY GROWTH\*

(NOMINAL)

	10-YR CAGR	5-YR CAGR
Super-regional	6.3%	5.9%
Regional	4.1%	4.0%
Small regional	5.1%	3.3%
Community	8.2%	9.6%

\*Trading density measures turnover (in rands) per square meter, excluding the impact of vacancies. Percentages refer to compound annual growth rates (CAGR).

SOURCE: Sefikile Capital

Also see story on page 14.

# The economic power of gender equality

Allowing women to play the same roles as men in labour markets could add an additional \$28tr to global annual GDP by 2025. A new study by the McKinsey Global Institute unpacks the status quo and what is possible.

Addressing gender inequality to allow women to play an identical role in labour markets to that of men can add as much as \$28tr, or 26%, to global annual GDP by 2025, compared with a business-as-usual scenario, according to a new study by the McKinsey Global Institute (MGI).

This impact would be roughly equivalent to the size of the combined US and Chinese economies today, the MGI said.

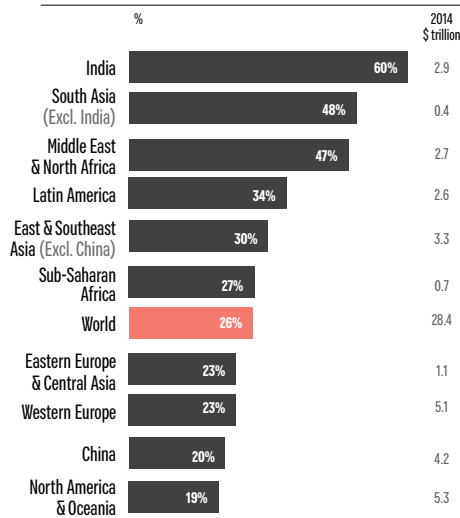
While women make up half the world's working-age population, they currently generate only 37% of global GDP today, the study found. There are large variations among regions – in India, for example, the output generated by women is only 17%, and only 18% in the Middle East and North Africa. In North America and Oceania, China, and Eastern Europe and Central Asia, the share is 40% to 41%.

When it comes to unpaid work, however, women globally undertake 75% of the work, according to the MGI. It estimates the unpaid work – such as childcare, caring for the elderly, cooking and cleaning – being undertaken by women today amounts to as much as \$10tr of output per year, roughly equivalent to 13% of global GDP.

Interventions to improve gender equality include financial incentives to keep girls

## THE POWER OF PARITY

GLOBAL GDP OPPORTUNITY 2025



\*Sample = 95 countries

SOURCE: IHS; ILO; Oxford Economics; World Input-Output Database; national statistical agencies; McKinsey Global Growth Model; McKinsey Global Institute Analysis

in school; subsidised childcare centres; minimum paid maternity leave; and laws that enforce anti-discriminatory labour market policies. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

## INEQUALITY QUANTIFIED

**240m**

The number of **workers** potentially added through higher female participation.

**1m+**

The number of girls not born each year due to **sex-selective abortion**.



**75%**

The proportion of **global unpaid work done** by women.

**30%**

The proportion of women who have been **victims of violence** from an intimate partner.



**22**

The number of women in **ministerial and parliamentary roles** for every 100 men.

**480**

The number of days of parental leave offered in **Sweden**.



## We keep our advisers independent, so they'll only do what is best for you.

We believe that you should receive tailor-made advice to suit your needs. That's why, by making our advisers independent, you'll benefit from solid, unbiased advice that will yield the best results.

By Ciaran Ryan

# Minority Report: The future of marketing has arrived

Retailers are using new technology on shoppers' smartphones to target customers with offers of just the right products – and at the right time.

In the 2002 film *Minority Report*, retinal scanners identify shoppers by name and tailor advertising based on known lifestyle and shopping habits.

Tom Cruise's character walks through a shopping mall and is told: "John Anderton, you could use a Guinness right about now."

The internet does this through "cookies", which allow for advertising based on your past browsing and purchasing experience.

A Pretoria-based company called Fatti – set up by Atterbury Properties to boost shopping mall sales and asset management – has taken South Africa a step closer to this kind of shopping mall experience.

"Our job is to offer bricks and mortar shops the same kind of intelligence already available to online shops such as Amazon," without bombarding the shopper with unrelated marketing, says Fatti's CEO Adrian Maguire.

Online, you can track who's visiting what web pages. "Based on this you have a pretty good idea of what they are likely to be interested in buying," explains Maguire. "We offer a very similar level of insight to managers of shopping malls and their tenants, and we do that by tracking the real-time movements of people with smartphones through the shopping mall."

Their studies show that 80% of people in shopping malls have smartphones. "This gives us a very good indication of body traffic."

Fatti's system tracks real-time movement of shoppers, using the shopping mall's WiFi.

The results are challenging some of the most cherished practices in retailing. For example, most malls group clothing stores together. "In one mall we found that most people enter a clothing store from the food court, so it would make more sense to position clothing stores near a food store or have linked marketing," says Maguire.

**The challenge for any shop owner is to turn window browsing into a purchase. Studies show that the longer someone spends in a store, the more likely they are to make a purchase.** The answer is to run time- and location-specific promotions when window browsers are out in force.

Where time-specific promotions have been tried, shops have increased their sales conversion rate from 50% to 80% (where eight out of 10 people who stop at the window enter the store) or more. One store analysed by Fatti had a conversion rate of 138%, which means some people walked straight into the store without gazing at the window. Promotions can last for as little as one hour, with messages flashed on screens to passing customers and through social media to shoppers' smartphones.

This "push marketing" is strictly controlled by

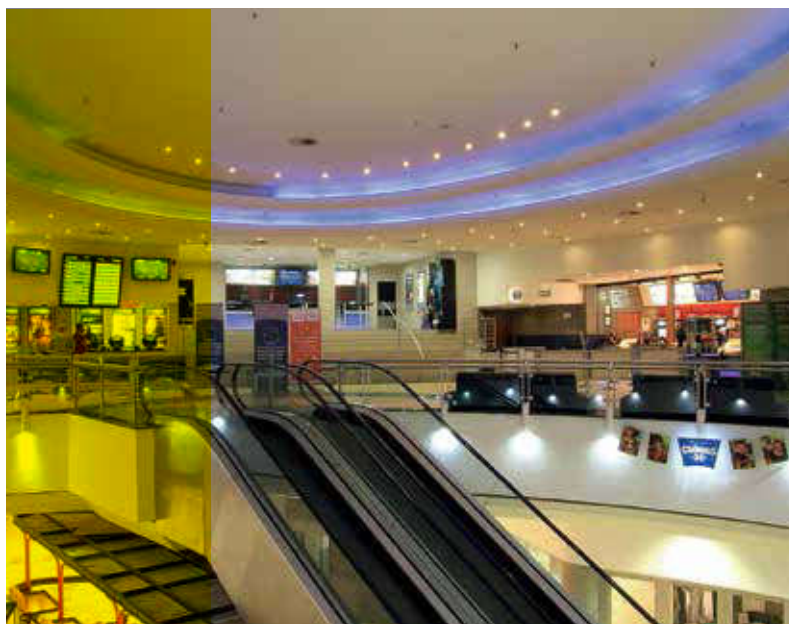


Image: www.atterbury.co.za

**When Tom Cruise's character was personally targeted by advertising in a shopping mall in the movie *Minority Report*, it seemed futuristic. That future seems to be arriving. Mall-goers can now be tracked via their smartphones in order to gain insight into their shopping habits. This insight allows retailers to tailor their advertising to specific shoppers at specific times, with the aim of optimising sales.**

mall management to avoid shopper frustration, says Maguire. Customers are encouraged to download a special application allowing them to pay for parking online and collect loyalty points.

This information can be used to develop marketing campaigns targeted at specific customers, such as people leaving the gym at 5pm and walking towards parking. The store keeper is informed that this group has a high propensity to buy health products and clothing. In this instance, special promotions on clothing and fitness lasting for about an hour would make sense.

"This is very different from the traditional shotgun approach to marketing, and we believe delivers a much better return on investment," says Maguire.

Eighty percent of people targeted in this way may end up making a purchase.

Shopping mall tenants usually rely on peak-hour traffic, such as on Fridays and weekends, for most of the week's sales. Now they can launch brief promotions during the slack periods to increase mid-week sales.

Maguire says they don't give out personal information and that they respect the confidentiality of all the shoppers.

The technology is not a cure-all for a failing retailer, he adds, as the in-store management and layout has a lot to do with the level of sales. But some simple adjustments to the way a store detects and engages with customers can mean the difference between success and failure. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)



## IDC introduces life-saving technology

Lodox Systems, a proudly South African company, has developed the only X-ray system in the world that provides excellent quality X-ray images up to 6 feet in length in just 13 seconds. This world-class medical technology makes all the difference in medical trauma and emergencies. Through IDC funding, the company

was able to increase production and distribution. The IDC, an entity of government, continues to play a critical role in coordinating key industrial sectors across the economy to advance industrial development. The IDC can fund your business. Call **0860 693 888** or visit **[idc.co.za](http://idc.co.za)** for information about the sectors that the IDC supports.



**Your partner in development finance**

# market place



**Don't miss:**

The *Finweek* Money Matters show every Friday at 1PM on CNBC Africa, channel 410. Every week, we talk to experts about the next issue's top stories.

## FUND IN FOCUS: THE CADIZ MONEY MARKET FUND

By Jaco Visser

# Inflation not getting this fund down

The Cadiz Money Market Fund has had one of the best returns over the past 12 months compared with its peers, according to Morningstar Research's fund tables. It ranks second in the category for money-market funds. The fund aims to yield higher returns than investors would get in fixed-term deposits and call accounts at banks. The fund's weighted average maturity of underlying investments may not exceed 90 days, indicative of a short-term investment approach.

### FUND INFORMATION

Benchmark:	STeFI Composite Index
Minimum lump sum/ subsequent investment:	R20 000 lump sum or R500/month
Fund manager:	Vanesh Naidoo
Total Expense Ratio (TER):	0.3%
Fund size:	R1.3bn
Contact details:	investorservices@cadiz.co.za or 0800 022 349

### PORTFOLIO COMPOSITION

as at 31 August 2015:	% of fund
1. <b>Call cash</b>	7.6%
2. <b>0-1 months</b>	11.3%
3. <b>1-3 months</b>	53%
4. <b>3-6 months</b>	17.6%
5. <b>6-9 months</b>	9%
6. <b>9-12 months</b>	1.5%

### Fund manager insights

The fund's exposure to bank instruments, called negotiable certificates of deposit (NCDs) has increased, but more as a result of a reduction in exposure to conduits, corporates and parastatals, according to Alastair Sellick, head of fixed income at Cadiz Asset Management.

"While the economy is struggling with a low growth rate, we have no concern about the strength of the banking sector per se," he says. "The still low, relative to historic norms, level of interest rates means that banks aren't yet experiencing high levels of bad or distressed debt."

The South African Reserve Bank has only hiked rates by 100 basis points, or 1 percentage point, since the commencement of the hiking cycle in January 2014, which is a very mild tightening cycle thus far, he says.

The fund has a 10% exposure to conduits, which are usually backed by assets.

"The exposure to conduits is quite low relative to the historic exposures that the fund had to the sector," Sellick says. "The credit behind the conduits in the fund is solid, and provides a good yield enhancement."

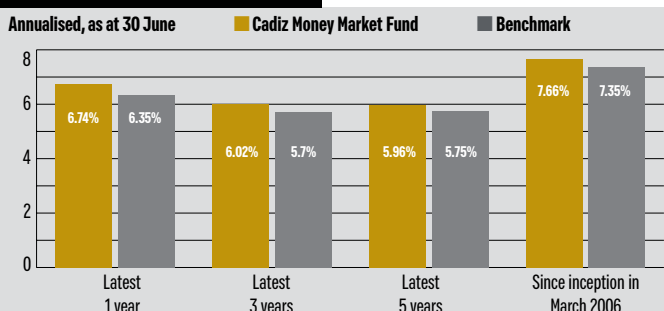
Cadiz expects consumer price inflation, or CPI, to breach the 6% upper band of the inflation target in the first quarter of 2016, but then return into the 3% to 6% range, he says.

SA remains in a rate hiking cycle; however, the next hike might only occur in early 2016, according to Sellick.

SA remains in a rate hiking cycle; however, the next hike might only occur in early

# 2016.

### % RETURNS



### Why *Finweek* would consider adding it

The fund has outperformed its benchmark over various periods and is returning more than inflation. Consumer prices rose by 4.6% in August, taking some pressure off the Reserve Bank to increase its benchmark repurchase rate from 6%. With real returns, or returns exceeding inflation, the fund gives investors some capital growth, which is characteristic of riskier funds such as balanced or equity funds.

The fund's TER is also low when compared with other funds in the Cadiz basket, such as the Absolute Yield Fund with its TER of 0.96% at a return of about 1 percentage point higher. ■

editorial@finweek.co.za

PHUMELELA

BUY

SELL

HOLD

By Simon Brown

## An uncertain bet

The results from Phumelela Gaming and Leisure have a lot of moving parts with high legal fees, impairments in Nigeria and a mark-to-market adjustment in Mauritius. On the back of all this, the results were modest, but the bigger issue is the industry the company operates in.

Horse racing is very much a sunset industry, as one can witness at pretty much every racing event aside from the few large marquee events held around the globe every year (locally the Met in Cape Town and the Durban July).

The company's move into sports betting



would seem attractive on the surface, but the competition is massive, from both a global and an online perspective.

A sports fan can bet on a local soccer team, but at the same time, they could log onto any number of other websites to bet on virtually anything they want, and this is the biggest issue: massive competition from around the world.

By holding Phumelela shares, one is betting that it will be one of the global winners and that is in no way certain.

Lastly, the limited payout machines are doing well, but there are better ways to gain exposure to this sector. ■



Last trade ideas

SELL

SABMiller

BUY

iShares US Real Estate (ETF)

BUY

The Walt Disney Company

SELL

Impala Platinum

BRAITSE

BUY

SELL

HOLD

By Moxima Gama

## Bigger stake in food group has investors' mouths watering

Investment company Brait, which is controlled by billionaire businessman

**Christo Wiese**, announced on 2 October that it will pay £172m (R3.55bn) to increase its stake in UK budget supermarket chain Iceland Foods from 19% to 57%.

The deal is the latest in a string of acquisitions by Brait following the sale of

its 37.06% stake, at R26.4bn, in discount clothing retailer Pepkor last year. In April, it agreed to pay £682m (R14bn) for 80% of health-club provider Virgin Active, and offered £780m (R16.1bn) for 90% of UK women's clothing retailer New Look in May.

Iceland Foods owns about 1.8% of the UK food market. It sells frozen foods, including prepared meals and vegetables. It has an extensive footprint of 858 stores in convenient high-street locations across the UK, and strong cash-flow generation from operations that averaged 89% of earnings before interest, tax, depreciation and amortisation (EBITDA) for the past three years. According to Brait, this acquisition is in line with its strategy of obtaining majority stakes in sizeable unlisted companies.

Though its share price dipped in June, it has since been consolidating, and upside above R142 will most likely trigger a short-term advance to the R184 levels – go long. An aggressive reload is recommended above R163. However, tight trailing stop loss must be applied. Alternatively, a reversal below R125 would trigger a correction to the R93 levels. ■

editorial@finweek.co.za



Last trade ideas

BUY

Curro Holdings

SELL

Netcare

BUY

Telkom

HOLD

Steinhoff International

Though its share price dipped in June, it has since been consolidating, and upside above

R142

will most likely trigger a short-term advance to the

R184

levels – go long.



Iceland Foods owns about  
**1.8%**  
of the UK food market.  
It sells frozen foods,  
including prepared  
meals and vegetables.



MONDI

# One last surge is possible

The South African-based packaging and paper company, Mondi Ltd, has seen its share price leap nearly six-fold since 2011. Despite industry issues, Mondi's dividends have also grown over the past five years.

The Mondi group consists of five main segments, with its packaging paper division – which sells virgin and recycled containerboard and specialty kraft paper – contributing 41% to earnings before interest and tax (EBIT) in the six months to end June. Other divisions include fibre packaging (13% of EBIT), consumer packaging (10%), uncoated fine paper (22%), and its South Africa division (14%).

Since 2011, Mondi's share price has leaped nearly six-fold from R54/share to R299.34/share. The group has been successful in streamlining operations to focus on its core packaging operations at a time when global pulp and paper producers have been under pressure due to weak demand and overcapacity.

It has completed around €160m of bolt-on acquisitions since the start of 2014, including the purchase of the bags and kraft paper business of US-based Graphic Packaging International; a consumer packaging plant in Poland from Printpack Inc, and the Intercell Bags plant in Serbia. Successful capital projects included the installation of a €70m (R1bn) new bleached kraft paper machine at its Štětí plant in the Czech Republic and a €30m pulp dryer at its Syktyvkar operations in Russia.

Mondi is earmarked to spend €420m (R6.4bn) on its project pipeline in 2015 and 2016, including €30m (R456m) on a woodyard upgrade at its SA division. The group is evaluating further major projects that will

centre on its low-cost packaging paper assets in central Europe, it said at the release of its interim results in August.

Impressively, given the issues facing the industry globally, Mondi has grown its dividends at a compound annual growth rate in excess of 20% over the past five years. It paid an interim dividend of 14.38 euro cents (R2.19 at current exchange rates) in the six months to end June, an increase

of 9% on the previous year.

However, despite growing its dividend and reporting a 23.9% increase in earnings before interest and tax (EBIT) for the first half of 2015, the reaction to this news was somewhat sombre – the share price consolidated. This begs the question – is Mondi simply taking a breather only to gush upwards again, or is buying momentum slowing from current overextended levels?

52-week range:	<b>R162.71 - R323.10</b>
Price/earnings ratio:	<b>18</b>
1-year total return:	<b>+74.9%</b>
Market capitalisation:	<b>R145.7bn</b>
Earnings per share:	<b>€1.11</b>
Dividend yield:	<b>1.92%</b>
Average volume over 30 days:	<b>436 127</b>
SOURCE: Bloomberg.com	



## What next?

**Possible scenario:** Mondi is trading within a symmetrical triangle in the third and final phase of its primary bull trend, which means it's overpriced. Nevertheless, a break above R305/share would confirm a positive breakout of the triangle, potentially extending the third phase to the R352.25/share upside target. However, once that target has been tested, Mondi could correct substantially from the third phase.

**Alternative scenario:** A negative breakout of the triangular pattern would be confirmed below R275.85/share, possibly commencing the correction from the third phase towards the R228.60/share downside target in the short term. In which case, investors should then sell or reduce long positions. ■

editorial@finweek.co.za



Source: MetaStock Pro (Reuters)

Don't miss!

**Moxima Gama on Finweek: Money Matters on CNBC Africa every Friday at 1pm.**

**Moxima Gama** has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.



## Simon's stock tips

The founder and director of investment website JustOneLap.com, Simon Brown is *Finweek's* resident expert on the stock markets. In this column, he provides insight into the week's main market news.

### SYGNIA

## JSE debut

The much-anticipated Sygnia listing is one of two new listings making its way to the JSE. Its prelisting documents suggest a historic P/E

Another deal (Ulundi) being done at listing pushes it closer to

20

times – not cheap.

of around 14 times, but if you include the new shares being issued in the listing, it increases to around 18.6 times. Another deal (Ulundi) being done at listing pushes it closer to 20 times – not cheap. One could argue that the dilution shouldn't be taken into account as the new shares didn't exist during the previous financial year, but I always dilute HEPS. That said, we can expect the company to grow earnings in excess of 20% and I anticipate the share to trade above the listing price of R8.40.

### BALWIN PROPERTIES

## A high-end Calgro



An artist's impression of Balboa Park, a new development by Balwin in Oakdene, Johannesburg South

Another listing headed to the JSE is Balwin Properties. It's very much like a higher LSM Calgro M3\* in that it develops residential estates and then sells the units. The company expects to market some 17 000 housing units in the next eight years with the land already acquired. It's also introducing a rental portfolio, but it's very small at this stage. The listing price was not known at the time of writing, as they're doing a book build. Even at the high end of the listing range, the P/E is a gentle 10 times and a little over half that of Calgro. Both this and the Sygnia issue will be concluded by the time *Finweek* hits the shelves, so you'll have to buy on the open market. I have applied for Sygnia (to sell post listing, not for long term) and will have a closer look at Balwin when we have a price for it.

### PICK N PAY

## Turnaround not clear-cut

On the surface the Pick n Pay trading update looked good, with HEPS expected to be 15% to 25% higher, but the share trades on a 35 times P/E and the market sent the stock off over 8% on the day of the announcement. Turnover is up a modest 8.5% – we don't know the details of how much was due to new stores and what inflation was; ultimately like-for-like after inflation is likely to be a very low single-digit number. Certainly the turnaround strategy seems to be working but as we've been repeatedly saying, the price has got well ahead of the turnaround as competitors trade on lofty but lower P/E levels of around 20 times.

Turnover is up a modest  
**8.5%**  
– we don't know the details of how much was due to new stores and what inflation was; ultimately like for like after inflation is likely to be a very low single-digit number.

### RESOURCE STOCKS

## A rough run

With the third quarter of the year now over, I was looking at index returns for the first nine months of 2015. The Indi25 leads the way – up 7.7% – with the Top40 and Fini15 both around +2%, all excluding dividends. On the other hand, the Resi10 has had a torrid year, losing almost a quarter of its value with seemingly no end in sight for the sell-off. At some point resource stocks will turn and rally, but I have no idea when and I have no intention of trying to call the bottom. There will be plenty of time when the sector really turns to pick up stocks at still very cheap prices, even if they've already rallied off the lows.

### CAPITEC



## Confidence, despite debt rejig

Capitec\* results were very good but I have one potential concern. The bank has rejigged its debts, stating, "We identified the opportunity to optimise collections by rescheduling the loans of selected clients rather than handing them over for legal process". Fair enough – especially in a situation like the platinum belt strikes – rather manage internally than hand over. But in fairness it raises questions that will only be answered in time for further results. For now I remain a happy and confident shareholder. ■

editorial@finweek.co.za

\*The writer owns shares in Calgro M3 and Capitec.

By Simon Brown

INVESTING

# Don't bet on quick wins

It is better to resist the urge for immediate gratification – patience is key when investing or trading shares.

One of the problems when we are investing or trading shares is that we're always trying to hit the ball out of the park.

We want massive winners in double-quick time. We want to get rich and we want it to happen tomorrow.

The drawback is that if we're trying to hit a massive winner every time, the only way we can do this is if we take on board equally massive risk. So if we don't target the correct trade or investment, before we know it, we've wiped out and it's game over for us.

This is equally true for both short-term traders (often using derivatives) as well as longer-term investors. Ultimately the desire to get rich quick almost always results in us getting very much poorer in double-quick time. Further, after we fail, it's not just that we now have no money left to invest or trade, but now there's also a huge hole in our confidence.

This hole in our confidence is more damaging than we think, because it might cause us to avoid the stock market for maybe a year or two, or perhaps we never go back. The issue is that we know the best place to create wealth over time is the stock market. So by wiping out and exiting the market, we seriously set back our ability to create wealth.

It is this time aspect that's very important. Stock markets create wealth, of that we are absolutely certain, but they do not as a rule create wealth instantly. Sure, there are always stories about somebody's friend who bought some stock that soared higher, making them a pile of money. But firstly those stories (if true) are infrequent and actually irrelevant.

Why I say they are irrelevant is because one massive winning trade in double-quick time is not going to enable you to retire

immediately afterwards. Sure, if you already had a large pile of money and bet it all on this one trade, then maybe your overall personal wealth situation would be much better. But assuming you hadn't sold your car, remortgaged your house and even

pawned the lounge suite, the amount you'd have invested would not have been

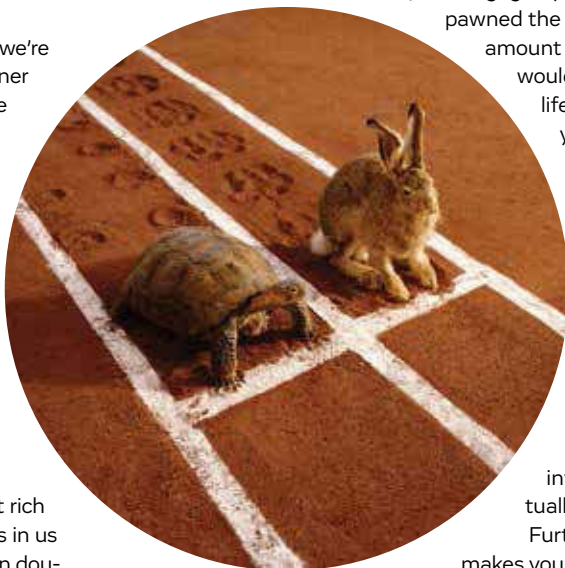
life-changing. So yes, you did great, but no, you did not make enough to retire, and now you have to find such a massive winner again and again and again. How likely is it that you will be able to cash in repeatedly on every stock you invest in without eventually hitting a dud?

Further, a big winner makes your ego grow and your confidence increase, so you take on even more risk. So, in short, if you're trying to hit massive winners every time you buy a share on the JSE, it will ultimately lead to your downfall.

Instead treat trading or investing on the JSE as a long-term process of wealth creation. Keep individual risk per trade/investment small so that when you're wrong (and you will be wrong), you don't wipe out. View it as a process of many small- to medium-size bets over your lifetime of investing and trading. Limit risk and losses, and keep seeking out outstanding companies that are going to help you create wealth over the coming decades.

Become the tortoise instead of the hare – slowly and methodically move towards your long-term goals without trying to do it all in one go. Forget about becoming rich in a hurry and focus on the longer term. This approach is not only easier but the chances of being successful are also higher. ■

editorial@finweek.co.za



**Stock markets create wealth, of that we are absolutely certain, but they do not as a rule create wealth instantly.**

## five

famous quotes on stock market investing

1

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas."

**Paul Samuelson, American economist and winner of the Nobel Memorial Prize in Economic Sciences (1915-2009)**

2

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

**Investor and philanthropist Warren Buffett (1930- )**

3

If you have difficulty imagining a 20% loss in the stock market, you shouldn't be in stocks.

**Jack Bogle, founder and retired CEO of The Vanguard Group (1929- )**

4

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."

**Mark Twain (1835-1910)**

5

"The four most dangerous words in investing are 'This time it's different'."

**Investor, businessman and philanthropist John Templeton (1912-2008)**

## HOLDSPORT

# The right retail exposure

From humble beginnings in 1986, Holdsport has established itself as a leading specialist sports and outdoor goods retailer in South Africa, eventually listing on the JSE's main board in 2011.

**H**oldsport operates mainly under two brands: that of Sportmans Warehouse and Outdoor Warehouse. The group also has a strategic investment in Performance Brands, an independently managed, technical apparel supplier to the sporting goods industry.

The Sportmans Warehouse business has 35 stores in South Africa and one store in Namibia – together they account for the bulk of group revenue (more than 70%). The division caters to a sport-enthusiastic nation and in turn the health and fitness themes – themes that have an elevated relevance and importance in modern day society.

The targeted niche in sporting apparel provides an added benefit of clothing which remains in vogue as long as sport remains a favoured pastime for South Africans. This makes identifying fashion trends a less arduous task and less subject to poor decision-making, a problem that has been noted by other locally-listed general retailers.

**The Outdoor Warehouse division comprises of 20 stores and has accounted for around 23% of group revenue historically.** This division is SA's largest dedicated outdoor and camping equipment retailer.

The smaller remainder of group revenue is realised through the company's interest in Performance Brands, which operates in the sporting goods industry through First Ascent and Capestorm. Although a smaller contributor to revenue, this division realises

## SALES\*

## Sportmans Warehouse

+8.8% to R1.13bn

## Outdoor Warehouse

+11.6% to R360.6m

Performance Brands  
(Capestorm, First Ascent – external sales)

-3.4% to R50.7m

\*Year to 28 February

an impressive profit (before tax) margin in excess of 40% (Sportmans Warehouse is just below 21% and Outdoor Warehouse just below 16%).

Holdsport has managed to consistently grow revenue and earnings each year since listing on the JSE's main board and has in turn rewarded shareholders with a dividend that has progressed each year as well. It has done well in terms of generating returns from shareholders investments, with a historical Return on Equity in excess of 20% and a Return on Assets in excess



Image: Holdsport limited integrated annual report 2015

of 40%. Trading on a forward price-to-earnings multiple of 11.5 times, Holdsport trades at a relative discount to a number of its sector peers as well as the overall index (18 times).

In addition, the group has historically generated strong cash flows and offered an attractive dividend yield in excess of 4%. For investors looking for exposure in the retail space, Holdsport provides an attractive proposition for those with a long-term horizon in sight. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

Shaun Murison is a market analyst at IG.

## HOLDSPORT



52-week range:	R38.13 - R60.80
Price/earnings ratio:	13.7
1-year total return:	+21%
Market capitalisation:	R2.5bn
Earnings per share:	R4.23
Dividend yield:	4.35%
Average volume over 30 days:	10 116

SOURCE: Bloomberg.com

## ASSESSING RISK

# Keep your investments on track

What investors can learn from Formula One racing.

One of the best ways to explain investment risk is by comparing it to Formula One racing. Aside from the fact that these drivers race at speeds of up to 300km/h around twists and turns on the racecourse, they constantly have to assess risks, such as when the time comes to speed up and when to slow down. A driver like Lewis Hamilton can start the race and keep going at full speed to get ahead of his competitors, but he risks the fact that his car's engine or its tyres may not be able to hold up to the challenge for the entire race.

At some point the driver in front will have to consider whether or not to continue racing at that particular speed and level, or whether to rather slow down a bit in order to spare the vehicle. Luckily, the driver has a team of experts to determine the vehicle's optimum performance levels within which to remain.

Investments in different asset classes are based on the same principle. Between 2011 and 2014, investors enjoyed being in the lead with their investments comfortably outperforming risk-free money market rates. Following the market's decline and increasing pressure this past month however, the time has come for investors to ask themselves whether they should slow down after having been in the lead for quite some time. Is it really necessary to keep pushing investments above optimum levels in order to win?

Before answering that question, it's important to clarify exactly what the optimum levels across the different asset classes are. Let's do this by using historical values and



Photo by LAT

The money market was in the lead with an annual standard deviation of

1%

compare those to Inflation (CPI). The moment we refer to different asset classes, most investors will argue that shares offer the best vehicle to outperform inflation. What's interesting though, is that if an investor invested parts of their capital in local shares, local bonds, property shares and money market 25 years ago (1991), it is property shares that would have performed the best before taxes.

However, it is important to note that property shares also started from a low base. Shares still offer the most tax-efficient investment vehicle of the four mentioned above, but even after tax, investors would have only just won the race.

It's only when we take a look at the volatility of these investments that the race starts to change course. The money market was in the lead with an annual standard deviation of

1%. Bonds came in second with 8.4%, properties third with 17.8% and shares in last place with 18.7%. Standard deviation tells us (based on historical data) by what percentage our investment could have grown or declined over a 12-month period. This means that investors who invested in shares during this 25-year period, could have either seen 18.7% growth in capital value, or risked losing 18.7% of their capital value, which changes things quite significantly. What this tells us is that if an investor aimed at outperforming bonds by 2%, they should have been prepared to risk losing 10% of their capital over the following 12-month period before continuing the chase after an asset class such as bonds.

With high risks and ratings still prevailing in current market conditions, investors have to ask themselves whether it is still necessary to push their investment vehicles beyond their limits to stay in the lead.

An overweight position in any asset class or even in a specific investment remains dangerous. As with Formula One drivers, the solution for investors is to remain within the limits set by their team of experts. ■

editorial@finweek.co.za

CPI+ OVER THE LAST 25 YEARS		
Asset class (total returns)	Annual outperformance of inflation	Annual standard deviation
Shares	+ 8%	19%
Bonds	+ 6%	8%
Property shares	+ 11%	18%
Money market	+ 3%	1%

Schalk Louw is a portfolio manager at PSG Wealth.

## TRADING

# Stalwarts take a beating on JSE

It's not only commodity and building shares that are suffering – banking on some of the big guns isn't your best bet.

That the JSE has undergone an important shift in gear is confirmed by the fact that the number of shares that lie above their long-term exponential moving average (EMA) has reduced drastically; to such an extent that these shares are now in the minority. Most of the Top100 – about 54% – are below their 200-day EMA.

It is not only the usual stepchildren – the commodity and building and construction shares – that are taking a beating. At the time of writing the share prices of stalwarts such as Nampak (45% below its high), Coronation (-42%), Aspen (-36%), MTN (-30%), Mr Price (-28%) and MMI (-25%) are under pressure. Their 200-day EMAs have turned south, which means that selling pressure dominates. **The market is demanding that attention should henceforth be paid to good underlying value. The easy days of riding on the back of momentum seem to be over.**

The danger of buying in a bear market was recently confirmed when punters burned their fingers with Anglo American. When it reached a low of R136 on 26 August and then increased by about 17% to R159, there were analysts who recommended it as a buy. Since then, it has made a turnaround at about R114, or 28% lower, before recovering somewhat.

Experienced investment managers have recently been merciless when criticising companies with high debt levels. They point out that this phenomenon repeats itself regularly in commodities. When prices are high, management teams become enthusiastic about the fat profits that are

STRONGEST SHARES*	
COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
PSG	30.7
SABMILLER	20
RESILIENT	19.98
CAPITEC	19.8
STEINHOFF	17.1
KAP	15.9
CAPPROP	13.1
BLUETEL	12.1
HOLDSPORT	11.5
MONDI PLC	10.9
BAT	10.8
DISCOVERY	10.7
MPACT	10.5
AVI	9.5
PIONEER FOODS	9.4
NASPERS-N	8.4
WOOLIES	6.8
SA CORPORATE	6.6
HYPROP	6.1
DISTELL	5.99
NEPI	5.55
BIDVEST	5.5
MEDICLINIC	5.5
PICK N PAY	5.2

\*Based on 100 largest market caps

BREAKING THROUGH	
COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
WBHO	4.8
ANGLOGOLD ASHANTI	4.4
CLICKS	4.3
REDEFINE	4.3
EMIRA	3.8
CITY LODGE	3.6
SAPPI	3.6
SPAR	3.3
RMB HOLDINGS	3.1



**Shaun le Roux**  
Fund manager  
at PSG Asset  
Management

The danger of buying in a bear market was recently confirmed when punters burned their fingers with Anglo American. When it reached a low of

## R136

on 26 August and then increased by about 17% to R159, there were analysts who recommended it as a buy.



made and not only do they expand existing production units, but they also acquire assets with borrowed money.

Former Anglo American CEO **Cynthia Carroll** was in the firing line, while Glencore CEO Ivan Glasenberg is under the cosh for its pile of debt to the tune of \$30bn, which it is struggling to cut, and doubt regarding what's happening at its trading arm.

**This strategy is the opposite of that which Sir Ernest Oppenheimer followed when he built up Anglo American at the turn of the previous century. He purchased assets at discount prices in times of bear markets.**

**Shaun le Roux**, fund manager at PSG Asset Management, reckons cyclical companies should pass on cash to shareholders when prices are high and cash-generation strong. When times become tough, they should conserve their balance sheets and exploit opportunities (like Sir Ernest did).

Of the strongest shares, SABMiller is the most noteworthy, and Steinhoff, which made new highs even after the market weakened, remains popular. PSG has not relinquished its leading position with, as usual, support from Capitec's excellent recent results.

Among the shares that have broken out, Sappi has surprised, especially as it has been under pressure for many years. Other shares that seem interesting include WBHO, Redefine, Spar and Old Mutual. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

**Correction:** In previous columns, the percentage differential between day prices and the 200-day EMAs was unfortunately wrong. A bug in the computer programme made it use the weekly closing prices. Fortunately, the rankings were nevertheless correct. The problem has now been solved.

## DIRECTORS DEALINGS

COMPANY	DIRECTOR	TRANS. DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
AVI	D Hood	5 October	Exercise Options	1,466	4549	66,688	6 October
AVI	D Hood	5 October	Sell	1,466	8807	129,110	6 October
AFRO-C	D Dampers	22 September	Purchase	15,926	500	79,630	5 October
AFRO-C	D Dampers	30 September	Purchase	1,723	510	8,787	5 October
AFRO-C	D Dampers	30 September	Purchase	1,001,118	500	5,005,590	5 October
ALEXANDER FO	EC Kieswetter	30 September	Purchase	843,645	889	7,500,004	5 October
ALEXANDER FO	DM Viljoen	30 September	Purchase	562,430	889	5,000,002	5 October
ATTACQ	Suca Trust	29 September	Sell	80,000	2203	1,762,400	6 October
BSI STEEL	C Parry	30 September	Purchase	98,984	44	43,552	5 October
COGNITION	MA Smith	30 September	Purchase	12,340	200	24,680	5 October
DISCOVERY	A Ntsaluba	1 October	Purchase	50,000	13655	6,827,500	6 October
DISCOVERY	A Ntsaluba	1 October	Sell	25,000	13718	3,429,500	6 October
ELLIES	RH Berkman	30 September	Purchase	90,000	60	54,000	6 October
ELLIES	RH Berkman	1 October	Purchase	206,057	60	123,634	6 October
GRANPRADE	D Pienaar	1 October	Exercise Options	205,678	361	742,497	6 October
JSE	L Fourie	30 September	Sell	3,618	12710	459,847	5 October
LODESTONE	CB Hallowes	29 September	Purchase	30,000	680	204,000	5 October
MTN GROUP	KC Ramon	29 September	Purchase	690	17857	123,213	5 October
MTN GROUP	KC Ramon	29 September	Purchase	2,546	17771	452,449	5 October
NASPERS	G Kisbey-Green	25 October	Exercise Options	964	1702	16,407	5 October
NASPERS	Patel	25 September	Exercise Options	1,378	170264	2,346,237	5 October
NASPERS	B Sgourdos	25 September	Exercise Options	1,378	170264	2,346,237	5 October
NASPERS	MR Sorour	25 October	Exercise Options	2,067	170264	3,519,356	5 October
NICTUS	GRD Tromp	28 September	Sell	90,000	90	81,000	5 October
NIVEUS	MM Loftie-Eaton	23 September	Exercise Options	48,221	2670	1,287,500	29 September
NIVEUS	MM Loftie-Eaton	23 September	Sell	48,221	2670	1,287,500	29 September
NIVEUS	A van der Veen	23 September	Sell	396,980	2670	10,599,366	29 September
NIVEUS	A van der Veen	23 September	Exercise Options	396,980	2670	10,599,366	29 September
PRIMESERV	LM Maisela	30 September	Purchase	90,000	42	37,800	5 October
PRIMESERV	LM Maisela	30 September	Purchase	850,000	42	357,000	5 October
SAFARI	FJJ Marais	5 October	Purchase	400,000	875	3,500,000	5 October
SAFARI	FJJ Marais	5 October	Purchase	42,000	875	367,500	5 October
SPURCORP	AJ Ambor	2 October	Purchase	230	3349	7,702	6 October
SPURCORP	AJ Ambor	2 October	Purchase	7,770	3350	260,295	6 October
WOOLIES	SN Susman	1 October	Sell	130,000	9808	12,750,400	6 October
YORK	P Van Buuren	5 October	Purchase	20,000	220	44,000	6 October
YORK	PP Van Zyl	30 September	Purchase	951,385	210	1,997,908	5 October
YORK	PP Van Zyl	1 October	Purchase	680,000	215	1,462,000	5 October

## BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (C)	CHANGE (%)
<b>BEST</b>	<b>650</b>	<b>172.0</b>
Telemastr	130	182.61
Aquarius	232	62.24
Lonmin	545	55.71
Af & ovr	1100	51.52
Nutrition	3	50.00
<b>WORST</b>		
Goliath	110	-23.61
Moneywb	31	-22.50
Alaris	170	-22.02
Masnite	2400	-18.64
Accent	63	-17.11

## INDICES

INDEX	WEEK VALUE	CHANGE (%)
JSE All Share	52 070.14	3.96
JSE Financial 15	16 484.38	3.98
JSE Industrial 25	69 563.67	3.57
JSE Resource 10	33 737.19	6.62
JSE SA Listed Property	655.22	1.65
JSE Top 40	46 624.37	3.88
CAC 40	466 064	4.671
DAXX	981 479	3.86
FTSE 100	632 616	4.36
Hang Seng	2 183 162	4.73
Nasdaq Composite	474 836	2.77
Nikkei 225	1818 610	4.59
S&P 500	197 992	3.12

## P/E RANKING

SHARE	FORECAST
Basread	4.04
Petmin	4.12
Group 5	5.64
Aveng	5.95
Kumba	5.97
Merafe	6.27
Lewis	6.31
M&R Hld	7.12
Raubex	7.31
Octodec	7.57

## EPS RANKING

SHARE	FORECAST
Naspers-N-	4412.00
Bats	4176.00
Sasol	3888.00
Sab	2900.00
Capitec	2691.00
Nedbank	2309.00
Bidvest	2072.00
Mondilt	1910.00
Astral	1909.00
Tigbrands	1833.00

## DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
Taste	650	172.0
Rebosis	109	10.1
Anglo	1072	9.0
Lewis	522	8.5
Emira	146	8.2
Fortressa	129	8.1
Accprop	54	8.0
Vukile	148	7.8
Octodec	192	7.6
Coronat	510	7.5



Carlo Gonzaga  
CEO Taste Holdings

All data as at 7 October at 17:00.

# AABLA

ALL AFRICA BUSINESS LEADERS AWARDS

IN PARTNERSHIP WITH



## SOUTHERN AFRICA WINNERS

Congratulations to the Southern Africa winners of the 2015 All Africa Business Leaders Awards in Partnership with CNBC Africa.

JOINT YOUNG BUSINESS  
LEADER OF THE YEAR



Ashley Uys  
Managing Director of  
Real World Diagnostics

JOINT YOUNG BUSINESS  
LEADER OF THE YEAR



John Nicolakakis  
CEO of Roman's Pizza

ENTREPRENEUR  
OF THE YEAR



Jason Xenopoulos  
CEO of NATIVE

BUSINESS LEADER  
OF THE YEAR



Johan van Zyl  
Group Chief Executive of Sanlam

BUSINESS WOMAN  
OF THE YEAR



Louisa Mojela  
Group CEO of WIPHOLD

BUSINESS WOMAN  
OF THE YEAR



Gloria Serobe  
Executive Director of WIPHOLD

PHILANTHROPIST  
OF THE YEAR



Wendy Ackerman  
The Ackerman Foundation

INDUSTRIALIST  
OF THE YEAR



Rachmat Thomas  
Chic Shoes

LIFETIME ACHIEVEMENT  
AWARD



Dr Christo Wiese

Industrialist of the Year Category: Southern & Finale  
Presented By



Entrepreneur of the Year Category  
Presented By



Savour the sea

Finale Host Sponsor  
Bakgatla Ba Kgafela



Lifetime Achievement Award  
Presented in Association with



Business Leader of the Year Category  
Presented By



Magazine Partner



Newspaper Partner



Vehicle Partner



Presenters Dressed By



# R200

**SOUTH AFRICAN PARASTATALS ARE BESET  
WITH FINANCIAL TROUBLES, BOARDROOM  
SQUABBLES AND MISMANAGEMENT.  
*FINWEEK* INVESTIGATES THE CURRENT  
STATE OF AFFAIRS.**

**m**ore than R20.6bn has been lost recently by just five of South Africa's biggest state-owned enterprises, with PetroSA the latest to make headlines when it reported the biggest loss on record by a parastatal.

The state-owned oil company managed to blow more than R12bn on a fruitless exploration mission off the coast of Mossel Bay in the past financial year, bringing its total loss to R14.5bn for the 2015 financial year. (It reported a loss of more than R1.6bn in 2014.) The parastatal's 2015 financial loss is 35% more than the allocation the Northern Cape received from National Treasury this year.

Other bleeding parastatals include South African

Airways (SAA), the South African Broadcasting Corporation (SABC), the South African Post Office and the South African National Roads Agency (Sanral). Their combined losses top R20.6bn (see opposite page), without much hope of their prospects improving drastically in the near future.

SAA, for example, which has received over R30bn in government bailouts, loan guarantees and grants since 2007, is yet to turn a profit. Its latest publicly available results, for the 2013/14 financial year, show a loss of R2.59bn. The SABC's 2015 loss of R394.7m, meanwhile, dwarfs the budget of the Public Protector, who needs to make do with a mere R246.1m this year.

PetroSA's financial and governance woes are of particular concern as the parastatal is earmarked to

## A look at SA's parastatals

South Africa has more than 700 state-owned enterprises (SOEs), with parastatals like Eskom and Transnet enjoying crucial monopolies in the economy.

Some of the biggest loss-makers\* include the following:

### **PetroSA**

2014/15: **(R14.5bn)**

2013/14: **(R1.649bn)**

2012/13: **R612m**

### **South African National Roads Agency (Sanral)**

2013/14: **(R2.776bn)**

2012/13: **R1.008bn**

### **South African Airways (SAA)**

2013/14: **(R2.599bn)**

2013/14: **(R1.204bn)**

### **South African Post Office (Sapo)**

2013/14: **(R361.26m)**

2012/13: **(R226.88m)**

### **South African Broadcasting Corporation (SABC)**

2014/15: **(R394.7m)**

2013/14: **R358.4m**

2012/13: **(R138.8m)**

\*These numbers are the net profit/(loss) figures published in the latest publicly available financial statements from the respective SOEs.

## Some of the major appointments and exits at PetroSA

## CHAIRPERSON

**Dr Benny Mokaba**

Appointed April 2011

Resigned April 2013

**Sduduzo Mncwango**

Interim chair 2014

**Tshepo Kgadima**

Appointed and withdrawn

as chair November 2014

**Wilfred Ngubane**

Appointed as interim chair

November 2014

**Nonhlanhla Jiyane**

Appointed as interim

chair November 2014

Resigned July 2015

## CFO

**Nkosemntu Nika**

Appointed September

2003

Resigned October 2012

**Lindiwe Mthimunya-****Bakoro** Appointed

1 December 2013

Suspended June 2015

## CEO

**Sipho Mkhize**

Appointed 2004

Termination of contract on

21 August 2010

**Dr Nompumelelo Siswana**

Appointed acting CEO

2010

**Nkosemntu Nika**

Appointed acting CEO

5 April 2011 to 20 July 2011

**Yekani Tenza** Appointed

acting CEO 21 July

**Nosizwe Nokwe-Macamo**

Appointed 1 March 2012

Suspended June 2015

**Mapula Modipa**

Appointed acting CEO

June 2015

hold government's free-carry stake in new oil and gas projects, which are already hampered by low oil prices and regulatory uncertainty. A number of oil majors, including Sasol, Eni and Royal Dutch Shell have halted exploration projects as they await more clarity on government rules for the nascent industry.

**Financial disaster #1**

Much of PetroSA's financial position can be attributed to the spectacular failure of Project Ikhwezi, an exploration programme which was aimed at extending the life of Moss gas, PetroSA's gas-to-liquids (GTL) refinery near Mossel Bay, through tapping new gas fields. To date, Moss gas has produced more than 1tr cubic feet (Tcf) of gas and more than 70m barrels of oil.

But just 10% of the predicted 40 to 50bn cubic feet of gas buried under the seabed has proven to be there, and the exercise resulted in a R12.2bn impairment.

In addition, while the R11bn initial investment was to drill five wells, by the first quarter of this year, only three of the wells were operating.

The extent of the disaster was only exposed when an email was sent to the board by Ikhwezi project leader Frank van Baarsel, who said extra funding was needed to keep Ikhwezi going.

The project started with an R11bn investment budgeted for five wells, which, once operational, were expected to produce between 40bn and 50bn cubic feet of gas. Five years later, only three of the exploration wells were operational – and they were producing way below the required volumes.

**Financial disaster #2**

This was Project Irene, a government-backed attempt to buy retail service station network Engen and an oil

refinery owned by Malaysian state-owned company Petronas. The deal, worth about R18bn, was set to transform PetroSA from a primary supplier of fuel to a distributor and retailer.

Despite PetroSA being repeatedly warned by transaction advisers and the Treasury that the proposal didn't make any business sense, the project was backed by energy minister Tina Joemat-Pettersson and President Jacob Zuma.

According to PetroSA, chief financial officer Lindiwe Mthimunya-Bakoro was at least partially to blame for this since she had ignored a board instruction in February last year to put aside R5.6bn for the purchase. It was only in October last year that it was found she hadn't done as she had been told. The Malaysians pulled the plug on the deal in December.

"The funding plan originally contemplated that PetroSA would contribute equity of R5.6bn... the failure to make provision for this was the main reason for the failure of the project," PetroSA said.

**Financial disaster #3**

But this is not all: a third blunder came in the form of its exploration operation in 'Block Q' off the coast of Equatorial Guinea. The auditor-general noted liabilities outweighed assets by R1.4bn at the PetroSA subsidiary – a guarantee from the parent company was needed to cover its debts when they fall due. A further R2.2bn loss was incurred on PetroSA's investment in Ghana's Jubilee oil field.

Not surprisingly, PetroSA says its offshore oil investments will be reconsidered and scaled down. The chairman of Parliament's portfolio committee on energy, Fikile Majola, has demanded that the entire board resign and be reconstituted to rescue PetroSA.

**BOARDROOM SHENANIGANS**

As the financial disaster began to emerge in May the board demanded that three key executives – CEO Nosizwe Nokwe-Macamo, chief financial officer Lindiwe Mthimunya-Bakoro and acting vice-president of upstream operations Andrew Dippenaar – take leave while the figures were analysed to see what had happened.

Only Dippenaar agreed to go though – Nokwe-Macamo and Mthimunya-Bakoro

refused to vacate their offices and ultimately had to be suspended (see sidebar above). The board was torn apart as some members felt the pair was being singled out unfairly.

The backbiting and maladministration in the beleaguered SOE got into the public domain when Mthimunya-Bakoro challenged her suspension – she said she hadn't been invited to the board meeting at which the decision was taken to suspend her. She also said the entire

board was responsible for the financial health of PetroSA, not just herself as CFO.

However in his responding affidavit, company secretary Mokgaetsi Sebothoma said it wouldn't have been appropriate for her to be at the meeting and that the parastatal's shocking financial position was a result of her poor decision-making. He also denied her contention that the board had been influenced by energy minister Tina Joemat-Pettersson.

# FEEDING MOSSGAS

**t**he massive losses suffered by PetroSA's Project Ikhwezi illustrate just how expensive oil and gas exploration is – with no guarantee that positive seismic tests will result in commercially viable new wells.

With the future of Moss gas – which supplies about 1.5% of energy-starved SA's current primary energy needs – at risk unless new feedstock can be secured, finding new oil and gas supply is crucial.

Yet, uncertainty over regulations is making it nigh impossible for companies to commit the major capital budgets required to explore SA's possible oil and gas resources, such as the Karoo's expected shale gas riches, which is estimated to hold as much as 390tr cubic feet.

While only around 10% of this is expected to be extractable due to the depths of up to a massive 6km – it could still represent decades of power for the country. Moss gas – at the time the first GTL plant in the world – has produced more than 70m barrels of oil from just 1tr cubic feet of gas.

While bids for exploration licences were taken as long ago as 2007, none have as yet been granted, stalling further developments. Royal Dutch Shell, one of the companies pushing for fracking in the Karoo, said in March that it was putting its plans on hold, citing a lack of clarity on government's technical regulations and the Mineral and Petroleum Resources Amendment (MPRDA) Bill.

The contentious MPRDA is a big concern for investors. It would grant government, or essentially PetroSA, a 20% "free carry" in all new oil and gas exploration and production projects, as well as the ability to acquire additional stakes of up to 80% at an "agreed price". This means such private players would be forced into a partnership with PetroSA, exposing them to corporate governance issues at the parastatal. In addition to the state's free-carry portion, companies would require additional black shareholding of 26%.

"You can't invest. You can't even bring a drill rig down here because you don't know what your investment ultimately looks like," Sasol CEO David Constable told *Finweek* in a September interview. Sasol owns an exploration right with Eni off the Durban coast. Seismic tests reveal the area holds much potential, but Constable said the partners will not be

spending any more money on the project until there is more regulatory certainty.

The delays are hurting SA: according to a recent report by the McKinsey Global Institute (MGI), development of SA's natural gas resources could boost the economy by R138bn to R251bn by 2030 and create up to 328 000 direct and indirect jobs.

Chris Bredenhann, Africa oil & gas advisory leader at PwC, said environmental concerns and regulatory confusion, among other issues, have stalled shale gas

exploration rights being handed out to companies like Bundu Gas and Oil, Shell and Falcon Gas & Oil.

The timing is also appalling: gas prices have plummeted along with that of most other resources, and while an upward surge is expected over the next few years, exploration around the world has slowed dramatically as economic viability is assessed.

## Energy shortage

South Africa can ill afford the losses by parastatals, and the opportunities missed. Rob Jeffrey, a senior economist at Econometrix, says SA's energy

requirements for growth meant development of the country's significant gas resources needed to kick off as soon as possible. Electricity constraints have been cited by both the International Monetary Fund (IMF) and the World Bank in October as a factor contributing to both bodies cutting the country's growth forecast for 2015 and 2016.

According to a hard-hitting Econometrix report co-authored by Jeffrey, SA has a potential growth trajectory of at least 4.1% a year. But policy issues, a lack of supply security, non-competitive power prices, the carbon tax and the focus on costly renewables, among other things, meant growth was unlikely to move above the 2.5% mark. The IMF is predicting

SA has a potential growth trajectory of at least

4.1%

a year. But policy issues, a lack of supply security, non-competitive power prices, the carbon tax and the focus on costly renewables, meant growth was unlikely to move above the

2.5% mark.



**Chris Bredenhann**, Africa oil & gas advisory Leader at professional services firm PwC

growth of 1.4% this year and 1.3% in 2016.

Jeffrey said aiming at low growth targets would become a self-fulfilling prophecy: "The adage that 'electricity is a necessary but not a sufficient condition for economic growth' will yet come back to haunt its citizens and the government," the Econometrix report states.

According to Jeffrey, renewable energy is one of the cheapest forms of power but it is available "about 30% of the time" and it is highly cost-intensive to set up. Its increasing presence in the country's energy mix will need to urgently be supported by a reliable source of power. Gas is the obvious solution: its short lead time makes it a quick fix. Coal, while the cheapest source of power, has a long lead time, and nuclear is "so horrendously expensive" it is almost unconscionable, according to the report.

### Opportunities

As tapping SA's own gas reserves seem unlikely for the foreseeable future, the potential for gas imports has been getting a lot more attention from government and the private sector as a potential plug for SA's expected energy shortage between 2020 and 2030, when almost half of the country's current power supply will be wiped off the grid as the original coal-fired power stations reach the end of their lives. It can also provide a much cheaper feedstock for Eskom's open-cycle

gas turbines, which currently run on diesel and cost the struggling utility more than R10bn in the 2014 financial year.

Currently, gas is mainly imported by Sasol via its pipeline from Mozambique, and mainly feeds its plants at Sasolburg and Secunda. It also serves commercial customers through Sasol Gas, an area where it sees

much potential for future growth if it can increase supply from Mozambique.

"The scale of the opportunity for gas use in SA is immense, with demand from the power sector alone possibly reaching 1tr cubic feet," according to the MGI. Sasol imported about 158bn cubic feet from Mozambique in 2014.

Importing gas would require the construction of liquefied natural gas (LNG) terminals, pipelines and other related infrastructure. An LNG terminal with an annual capacity of 170bn cubic feet would cost about R4.4bn and could be in place by 2018, depending on regulatory processes, according to the MGI report.

Other options include imports from floating LNG barges. Speaking at a conference in Cape Town at the end of September, Gonzalo Ramirez, director of business development for US-based LNG provider Excelerate Energy, said the company could have a regasification barge operating off the South African coast in just two years.

Excelerate was one of many international organisations in the country to assess the potential for operating in the country, an interest spurred by minister of energy Tina Joemat-Pettersson's statement, "Our key challenge is how to bring the benefits of natural gas as an energy source as early as possible."

The department of energy's Gas Utilisation Master Plan (Gump) – a road map for the development of a gas industry that takes a 30-year view of the potential of this power source – is currently under way. But only once key decisions have been made at government level can the numbers be crunched and infrastructure build begin to be planned.

Michael Fichardt, project manager at Gump, says if gas were to be a significant addition to the energy mix, it could also potentially create a greater amount of renewable energy-capacity in future iterations of the integrated resource plan.

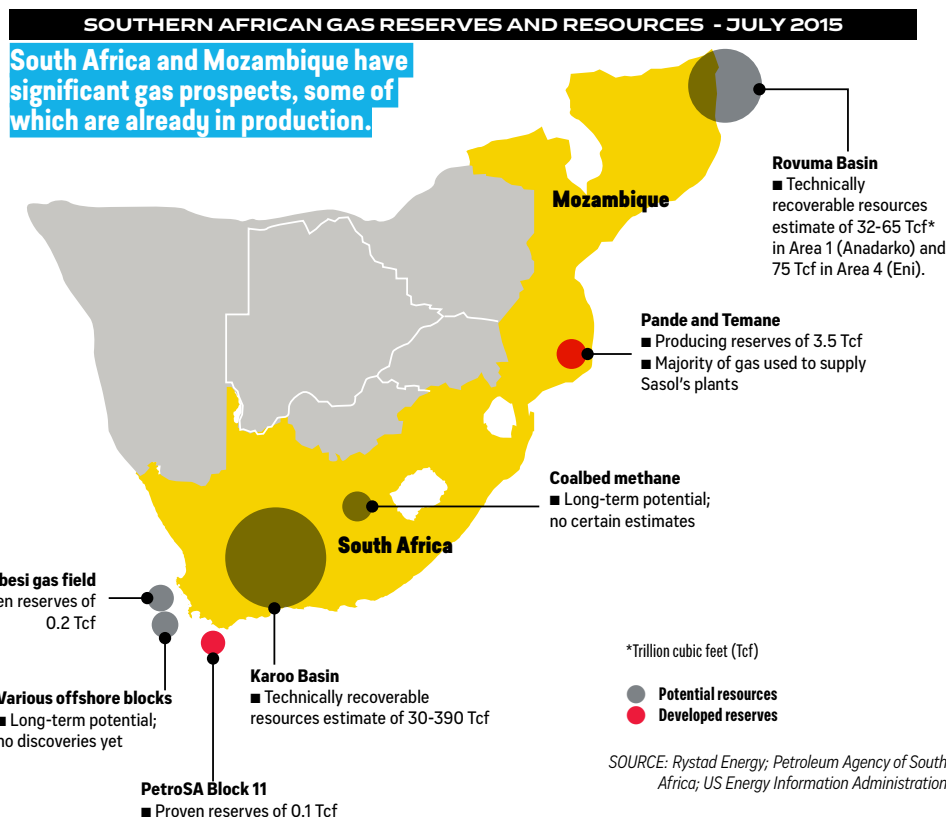
The rationale is that, in addition to being a primary source of power, gas can also be turned on and off to act as a backup to the renewable power sources to stabilise the grid. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)



Rob Jeffrey, Senior economist at Econometrix

## The potential for gas imports has been getting a lot more attention from government and the private sector as a potential plug for SA's expected energy shortage.



# SUBSCRIBE NOW

**SUBSCRIBE TO THE DIGITAL EDITION  
FOR ONLY R92 PER MONTH AND SAVE 20%**



## HERE'S HOW:

1. Register an account at [www.mysubs.co.za](http://www.mysubs.co.za) OR log in to your account.
2. Go to the page of the item you would like to purchase and select your subscription option.
3. Click on Add to Cart and then Checkout.
4. Pay now.
5. Select your method of payment and your order will be confirmed.
6. Download the MySubs+ app from the relevant app store and log in with your MySubs details to read your publication. Your magazine will appear in your library. Simply download and enjoy!

*my*subs

## CONTACT US ON:



0861-697-827



SUPPORT@MYSUBS.CO.ZA

### TERMS AND CONDITIONS

Offer valid until 31 October 2015. If at any time you choose to discontinue your subscription, call 0861-697-827 or email [support@mysubs.co.za](mailto:support@mysubs.co.za).

# MAITIU

The title 'MAITIU' is rendered in large, bold, blue capital letters. The letter 'A' contains a photograph of a sunset over a body of water with small boats. The letter 'U' contains a photograph of a coastal town with buildings and a harbor. The letters 'M', 'I', 'T', and 'I' are solid blue.

## MORE THAN JUST SAND

# UP S AND SUN



PORT LOUIS

## AT A GLANCE:

### Population

1.3m  
(SA: 54m)

### GDP:

\$12.62bn  
(SA: \$349.8bn)

### GDP growth rate:

3.5%  
(SA: 1.5%)

### Inflation:

3.2%  
(SA: 6.4%)

### Official unemployment rate:

7.8%  
(SA: 26.4%)

### Life expectancy at birth:

74 years  
(SA: 57 years)

SOURCE: Statistics Mauritius,  
World Bank

For most people, the name Mauritius conjures up white beaches and turquoise waters – the perfect makings of a lazy island holiday. But this small island nation, which lies about 2 500km off the African mainland in the Indian Ocean, has worked hard over the decades to diversify its economy. **Stefanie Muller** takes a closer look at the country's economy.

Unlike many countries on the African mainland, Mauritius has never been able to boast of an abundance of natural resources. "[Mauritius] had to survive," says **Kamal Taposeea**, chairman of Minerva Fiduciary Services. "We didn't have anything – we had sugar cane and textiles."

Today, these two industries still play a major role in the country's economy, but the ICT and financial services sectors have also come to the fore.

Sugar was first cultivated on the island in the 17th century and this industry remains a significant sector today – the country exports over 400 000 tons annually and is part of the manufacturing sector, which today makes up around 17% of the economy. Other major exports include processed fish, clothing and radio transmission components. On 22 August the country's prime minister, Anerood Jugnauth, announced that the government seeks to expand this sector so it makes up 25% of GDP as part of the country's Vision 2030 economic plan.

Over the past few decades, the services sector – encompassing tourism, the financial sector and ICT – has grown substantially; today contributing 67% of the country's GDP.

The Mauritian government intends to turn the entire country into a 'Cyber Island', with plans to make WiFi accessible across the country. The government aims to bring fibre connectivity to the whole country in the next three years and to increase the number of WiFi hotspots around the island from 15 to 350. It will also

allow ICT companies that have over 100 employees to hire foreign experts in order to facilitate growth and innovation in the sector.

Mauritius has geared its economy towards attracting foreign investment, which has grown 164% from an average of \$124m a year between 2005 and 2007 to \$327m in 2014, according to United Nations statistics. It has optimised trade relations – it belongs to both SADC and the Common Market for Eastern and Southern Africa (Comesa). The country has also entered into Double Taxation Avoidance Treaties with more than 42 countries, including South Africa and India.

Mauritius has no foreign exchange controls and offers an attractive tax environment. Taposeea points out that many South African companies that are moving into the rest of Africa have set up branches in Mauritius – this includes Shoprite, Woolworths and the Spur Corporation.

Another major factor that attracts international business to Mauritius is the fact that the services of chartered accountants, trust and estate practitioners, lawyers and accredited chartered secretaries, among others, are far more affordable than in Europe and US, but the standard is nevertheless high. "That's

## Mauritian trade – 2014

### Main export partners and % of total exports

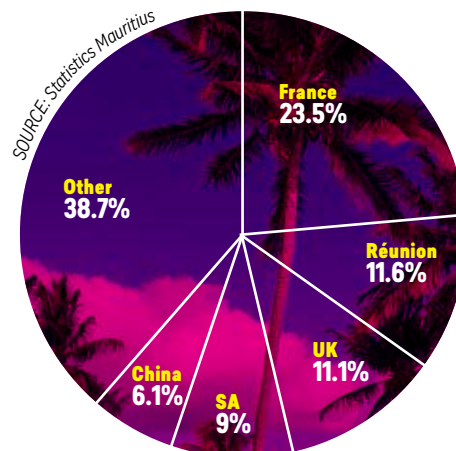
France	14.6%
United Kingdom	13.6%
United Arab Emirates	10.7%
United States	10.5%
South Africa	7.1%

### Main import partners:

India	21.6%
China	16.2%
France	7.7%
South Africa	6.6%
Vietnam	3.6%

SOURCE: Comtrade, Mauritiustrade.mu

## Tourist numbers\* by top 5 places of origin – 2014



\*Total number of visitors in 2014: 1.039m

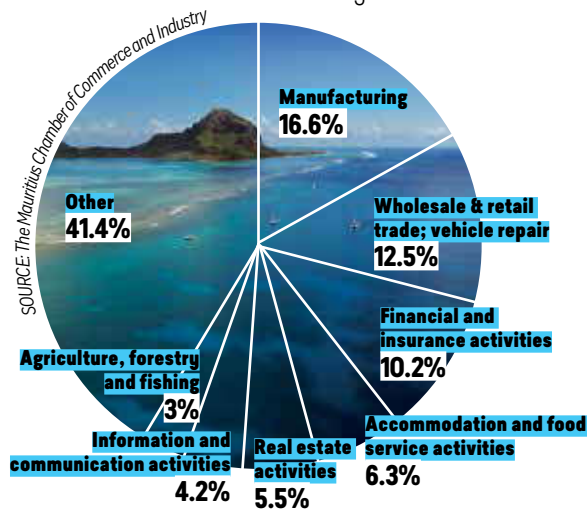
why people come here – we've got the professionals that have the knowledge of global business," says Taposeea. Big-name banks such as Investec, HSBC, Deutsche Bank and Barclays all have a presence in the country.

The Mauritian government also wants to renew its focus on the so-called blue economy. This would include projects such as the exploration of the seabed for oil and minerals and a focus on deep ocean water application (water from deep under the sea is used as a component in 'green' air conditioners, in aquaculture and in the beauty industry). The country is planning to upgrade its main port at the capital Port Louis, which handles just under 7m tons of cargo annually, to attract more passing ships – just over 3 000 ships call on the port annually, but around 30 000 vessels pass the island every year.

"Whether the vision will be good or not, time will tell," says Taposeea about the government's proposed plans. "But that's part of our strength – we don't just sit there and think, 'Now we're good at financial services [for example],' and sit back. We're always thinking of new things."

The writer visited Mauritius as a guest of Air Mauritius, Indigo Hotels and the Mauritius Tourism Promotion Authority.

## GDP breakdown by sector



## A popular destination with overseas property buyers

In mid-2015, the Mauritian government launched the new Property Development Scheme (PDS), which allows for the development of residential units on pieces of freehold land that are between 0.42ha and 21.1ha in size. Non-Mauritian citizens who invest a minimum of \$500 000 (R6.8m) in such properties are eligible for a residence permit.

PDS replaces two earlier schemes – the IRS (Integrated Resort Scheme) and RES (Real Estate Scheme) – these differed in terms of price and



Many foreigners who buy property in Mauritius do so with an eye to

retiring there, South Africans among them.

the size of the property that could be bought.

Like much of the world, the Mauritian property sector felt the pressure of the 2008/09 economic crash, although international buyers are now beginning to show interest in the island's property sector once more. This is according to Philippe de Beer, director of Park Lane Properties.

The majority of expats buying up designated properties are French, South African and British. De Beer explains that French nationals in particular are drawn to Mauritius because of its low taxes.

## TOURISM

## Sector on an upward trajectory

"We are natural hosts," says Jocelyn Kwok, CEO of AHRIM (Association des Hôteliers et Restaurateurs de l'île Maurice), of the Mauritian people, explaining that the sector has seen growth almost every year except during the recent financial crisis and during the oil crisis of 1973. According to Statistics Mauritius, tourist numbers grew from below 788 000 a decade ago to just over 1m last year. It's estimated that this figure will rise to 1.1m this year.

Kwok believes one of the major factors that make the island such an attractive destination is the fact that, unlike in many other countries, foreigners do not make up a significant percentage of Mauritius's hospitality employees, which allows tourists to have an authentic experience when they visit. "In hospitality, we've still managed to keep the Mauritian feature... You won't meet that many foreign workers in our hotels," he says.

According to Mike Gray, CEO of Uniglobe Travel, Sub-Saharan Africa, another factor that makes the island so attractive to tourists is the country's highly literate, multilingual population – while most Mauritians speak Creole as their mother tongue, most are fluent in French while English is commonly used in the business and tourism sectors.

Further, authorities have made it easy to visit the country. This is in contrast to the situation in South Africa, where tourists travelling with minors are now forced to bring unabridged birth certificates with them when visiting SA. "Don't shoot yourself in the foot – now the impression has been created in the rest of the world that it's dangerous to bring your kids to South Africa," says Gray.

As a result of the new visa regulations, the number of tourists travelling from, amongst



**Jocelyn Kwok**  
CEO of AHRIM



**Mike Gray**  
CEO of Uniglobe Travel

others, China to SA has taken a dip, but this is not the case for Mauritius. Chinese visitors are flocking there in growing numbers, with over 65 000 visiting in 2014. "This is a huge challenge for us," says Kwok. "The place is small and we have a language barrier," explaining that Chinese Mauritians do not speak Mandarin – which would be the language most Chinese tourists use – as they come from parts of China where it is not commonly spoken.

He adds that Mauritian hotels have started putting up Chinese signage and offering food that would appeal to the Chinese palate. Adapting to this surge of Chinese visitors is tricky because the hotels have to ensure that the needs of Western guests are also still being met.

In addition to attracting more Chinese tourists, Kwok says they hope to draw more so-called "Big Fat Indian Weddings" to the country – India is currently the seventh-largest source market for tourists. Another demographic Mauritius wants to attract in the coming years is the black African traveller. "We have explicitly said that we need to work out a proper Africa strategy," he says.

Kwok also admits that the island could boost the leisure activities it offers tourists – which currently include golfing, kite surfing and canopy tours, among others – and emphasises the need for research into this area. This is in order to optimise the island's offerings so as to appeal to tourists who are not necessarily interested in spending their entire holiday on the beach. AHRIM members are also considering the revitalisation of the country's gambling industry. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

"Mauritius is the country they know as a holiday destination. [We speak French] here, it's the same time zone as Europe – nearly – the connectivity is very good and they find their place here nicely."

Many foreigners who buy property in Mauritius do so with an eye to retiring there, South Africans among them. For those seeking a long-term return on investment, it is possible to buy properties years before moving there permanently. De Beer explains that some resorts

offer property management services and even market to tourists so the owner's property is occupied when they are not in Mauritius. "Some of these resorts [...] already have agreements in place with tour operators in Europe, in South Africa and in Africa, so tourists are coming [...] to these resorts and are renting nights in your apartment."

De Beer emphasises that in such a case the buyer would have to ensure that the location would appeal to tourists. ■

# Is coal rising from the ashes?

It would seem that things are looking up for the local coal industry, despite international prices.

By David McKay



Activity in SA's coal sector is heating up even though international prices for the fuel are at rock bottom, and are forecast by Goldman Sachs to remain weak for the foreseeable future.

The reason for the local excitement is that selling coal to Eskom is proving very good business. "If you're exporting coal, you will be bleeding," says Tony Weber, CEO of Universal Coal. "If you're in the Eskom space, it's proving a magical place to be," he added.

Universal Coal is a Sydney-listed business that operates two coal mines in Mpumalanga province – Kangala and New Clydesdale Colliery – the latter bought from Exxaro Resources earlier this year.

It is currently subject to a hostile takeover offer from IchorCoal, a German business which is managed by former ArcelorMittal South Africa CEO, [Nonkululeko Nyembezi-Heita](#).

Predictably, Weber doesn't think IchorCoal's 16 Australian cents/share offer is valuing the company properly but there's the likelihood of a bidding war breaking out as there are now two other rival offers under construction; one from a company with significant SA coal exposure.

Whilst neither Universal or IchorCoal are listed in Johannesburg (not yet anyway), the point is that investors are willing to take a position on Eskom's looming coal deficit. Weber calls IchorCoal's bid "opportunistic"; the opportunity is that Eskom will pay a premium for coal.

A coal share that is available for SA investors is Resource Generation (Resgen). The company is headquartered in Perth, Australia, but has a listing in order to comply with local empowerment laws.

It, too, is the subject of opportunism with two of its shareholders attempting to change the composition of its board just as the company signs a \$500m plus financing deal with a Swiss private equity firm – itself an expression of new found confidence in the sector.

Paul Jury, CEO of Resgen, said that sentiment to the coal sector may well have changed by the time the firm's Boikarabelo project comes on stream, up to 28 months after the finance package is signed off. "We are terribly in love with the ore body," said Jury.

There are other cases of coal companies stabilising after recent wobbles. Coal of Africa has shored up its balance sheet by concluding an equity deal with its Chinese shareholder while Wescoal – having ejected its founding CEO, Andre Bojé, earlier this year – is on

a firmer footing.

"We had a difficult final quarter in our previous financial year, and a tough first quarter in the new year largely because we were operating on a short-term contract to Eskom, but we think the second half of the year will be better," said Waheed Sulaiman, CEO of Wescoal.

The contract is for some 221 000 tons in September and October from the company's newly commissioned Elandspruit mine, which Sulaiman wants to convert into a long-term contract. "I think we'll get a decent price from Eskom, enough for us to turn a profit from Elandspruit."

However, the clearest indication that Eskom is helping to bolster the fortunes of local coal producers is the transaction in which Sibanye Gold is to finance Waterberg Coal Company (WCC), a business that was locked in last-ditch talks for months with its financiers.

Neal Froneman, CEO of Sibanye, is hoping that by controlling WCC he can secure enough coal to take the firm 'off-the-grid'; in other words, lessen its reliance on the power utility, which is hiking rates in order to pay for its capital programme.

"The [coal] sector is so ripe for the picking," said Peter Major, a consultant to Cadiz Corporate Solutions. "There's much easier money there than platinum and even gold, if you ask me," he said. ■

**"The [coal] sector is so ripe for the picking... There's much easier money there than platinum and even gold."**

It, too, is the subject of opportunism with two of its shareholders attempting to change the composition of its board just as the company signs a

**\$500m+**

financing deal with a Swiss private equity firm – itself an expression of new found confidence in the sector.

# Sibanye goes for Aquarius Platinum

Sibanye Gold makes another move that sees the Froneman 'empire' expanding.

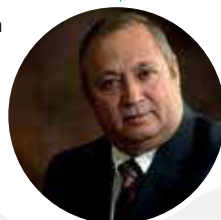
By David McKay

**n**eal Froneman, CEO of Sibanye Gold, left the door ajar to other corporate manoeuvres following the proposal to buy Aquarius Platinum for R4bn earlier this week – a transaction that catapults the company into the top five of global platinum producers.

"We do sense we are near the bottom of the cycle so there are a lot of opportunities," he said. "We are not stopping looking, but I don't expect other than what's announced in the pipeline in the shorter term," he said.

Froneman has been accused of empire-building in the past, but his recent track record of asset grabbing is impressive, even by his standards. His current merger and acquisition team is trawling through three concurrent deals with a combined value of R9bn, including the cash injection and debt assumed in the proposed takeover of Waterberg Coal Company and the shares or cash in the R4.5bn bid for the Rustenburg mines of Anglo American Platinum.

Quizzed on the sidelines by *Finweek*, however, Froneman stepped back from other major consolidating steps in either the platinum (Lonmin) or the gold (Harmony Gold) industries – he's been connected to both in the past. Both were saddled with too much debt – Lonmin would need a recapitalisation of \$600m (R8bn), which is double the price Froneman is paying for Aquarius – and both are struggling to generate cash.



Aquarius Platinum, however, reported cash of \$196m in its 2015 financial year despite a 7% decline year-on-year in platinum group metal (PGM) prices. It also has net cash of about \$72m as of end June. Nonetheless, there's some pretty heavy lifting that needs to take place at Sibanye Gold over the coming months.

Apart from getting three concurrent transactions underway, Froneman's team has to set about extracting the synergies and benefits he said all three deals contain.

This will be no easy task.

Keeping Aquarius Platinum's Jean Nel on board will be crucial for Sibanye's platinum prospects. "I think Jean Nel is a catch if they can keep him," said a UK analyst who isn't allowed to comment on the record.

Provided he is not completely frazzled after running so hard keeping Aquarius afloat, Nel may well be tempted, especially if Froneman offers him executive authority over the recently launched Sibanye Pt, Sibanye Gold's platinum division.

Said Investec Asset Management's Hanré Rossouw: "I don't think Jean got much out of being CEO at Aquarius. He took shares instead of a salary, so his in-price is probably far less than what's being offered by Sibanye."

Nel announced in September 2013 that he would take up to 70% of his salary and bonuses in Aquarius Platinum shares for three years during which time the company's share price has slid 72%. ■

## CAN ANGLO PAY DIVIDENDS?

Attention has fallen again on whether Anglo American will be able to meet its dividend payment commitments for both the current financial year, which ends 31 December, and that of the next in 2016.

The question of dividend payments is inevitable, given the fact Glencore has suspended its own dividend payments amid worries that net debt will strangle the firm – an outcome the Swiss-based group has energetically refuted.

Anglo doesn't have net debt of \$30bn, as per Glencore (net debt

was \$12.9bn as of June 30), but worryingly its listed subsidiaries – Kumba Iron Ore and Anglo American Platinum – have debt covenants with banks.

This means that were the ratio of debt to pre-tax earnings to breach a certain level, banks would have the right to call in loan agreements, or most likely restructure them. It's worth noting that debt covenants are something that Glencore never had; nonetheless, this didn't stop the market speculating on the ability of Glencore to keep trading. Whilst Anglo has not had to

fight off fears of bankruptcy, it's likely that pressure on debt in its subsidiary companies will almost certainly force it to reconsider its dividend payments both this year, and in the next financial year.

Added to this, the company's saving grace last year – an outstanding performance at De Beers – is not likely to be repeated owing to an overstock of diamonds among cutters and polishers, itself a function of the cheap credit in the market that so bewitched and ultimately troubled the world's diversified mining groups.

"So, just when the late cycle element of the company's diversified portfolio should have kicked in (and indeed was doing so for a while), and supported cash flow, it failed," said Barclays Capital in a note published on 25 September.

"Anglo American's dividend is a risk, we believe," said Barclays Capital. It added that a more realistic approach would be to pay a percentage of earnings, although it warned that dividends this year – and possibly next – might be paid out of debt. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

By Liesl Peyper

# THE MINIMUM WAGE DEBATE

Deliberations on a national minimum wage have been a few months in the making, but it remains a contentious issue among academics, economists and government, business and labour leaders.

**P**roponents of a national minimum wage for South African workers got support for their notion when celebrity French economist Thomas Piketty visited the country. Lecturing in Cape Town and Johannesburg recently, Piketty made a strong case for national minimum wages as a means to significantly reduce poverty and inequality, when set at the right level. According to him it has proved successful in both developed and emerging economies.

## One for all, says Cosatu

In a document submitted to parliament's oversight committee on labour, the trade union federation says it wants nothing less than one, single minimum wage across all sectors.

Cosatu argues that the existing minimum wage that already exists in certain sectors where there's no collective bargaining, such as agriculture, domestic work,



**Azar Jammine**  
Chief economist at  
Econometrix



**Haroon Bhorat**  
Professor at UCT's School  
of Economics

the hospitality industry, contract cleaning, private security and the taxi industry, is "way below the broad minimum level" (see sidebar).

Cosatu is adamant that all industries – irrespective of whether there are collective bargaining processes – should be subject to a minimum wage. According to the trade union, having one national minimum wage, linked to a minimum living level would help vulnerable workers escape the poverty trap that current sectoral determinations condemn them to.

Although Cosatu doesn't have a mandate yet for a figure at which a national minimum wage should be set, it cites two international benchmarks for consideration.

The one is the so-called minimum living level, which was roughly calculated at around R4 500 to R5 500. The other benchmark is called the ratio of the minimum to the national average. "Internationally the yardstick," says Cosatu, "is that the minimum wage should be at

# AGE



## MINIMUM WAGES

Here are examples of legislated minimum wages that are currently in force in certain sectors of the economy. This could exclude added benefits supplied by employers, such as staff meals or free housing:

SOURCE: Department of Labour



40% to 50% of the national average wage. In South Africa the national average is R15 000 which means 40% to 50% of this figure would be around R6 000 to R6 750."

### Unique challenges in SA

**Haroon Borhat**, professor at the University of Cape Town's School of Economics and Director of the Development Policy Research Unit, says in the South African context – where there is high unemployment – a minimum wage that is set too high may have a dampening effect on employment.

Piketty was reflecting on global evidence when he spoke about a minimum wage, says Borhat. "Especially in Europe, where his expertise lies, it has reduced income inequality," says Borhat.

Borhat stresses that SA is different. The question that concerns him is how to deal with minimum wages in our context. Setting a minimum wage that is too high might not create sufficient jobs and could even result in job losses, says Borhat.

**Azar Jammie**, chief economist at Econometrix, believes a national minimum wage runs the risk of exacerbating inequality. "It may raise incomes of a certain limited number of people who already have jobs, while it will generate more unemployment. Some people will benefit while others lose badly and be even worse off because of a national minimum wage."

According to Jammie, national minimum wages work in countries where unemployment is already high. "In SA much of our unemployment is as a result of insufficient education and low productivity and the only way to get them employed is to take them on at a fairly low wage."

### No 'one fits all' approach

Borhat points out that there are different ways in which the minimum wage question could be addressed. "We could go for a minimum wage and the sectoral wages continue; or you take the average across all sectors to determine a minimum wage; or there could be a mixed model where there is a national minimum wage which exempts certain industries.

He also suggests a simpler model whereby the different sectoral determinations are reduced to make enforcement easier. "In principle, I think it may be a good idea to set individual minimum wages – for example in retail a forklift operator's salary will differ from a



**Domestic workers** in major metropolitan areas who work more than 27 hours per week:

**R2 065.47**

per month (valid until 30 November).



**Farm workers** earn a minimum wage of

**R2 606.78**

per month (valid until 29 February 2016).



**Shop assistants** in major metropolitan areas:

**R3 249.98**

per month (valid until 31 January 2016).



**Hospitality sector** wages for employers with 10 or more employees:

**R3 076.98**

per month (valid until 30 June 2016).

salesperson in a small café – but then again it's harder to enforce that in practice."

The South African Chamber of Commerce and Industry (Sacci) on the other hand is pushing for a model that will include different national minimum wages for provinces, *Business Day* reported.

Both Econometrix's Jammie and Borhat are sceptical of wage differentiation for provinces. "This would make far less sense than having different minimum wages for different sectors," says Jammie.

Borhat can't see how such a model will be administered. "What qualifying characteristics would you use for the different provinces? And what if factories move across the border to a different province?"

In India there are state laws around minimum wages, says Borhat, and in one of the poorer states a factory moved across to another state border when minimum wages were introduced. "I don't think that's the way to go."

### What about exemptions?

Besides different wages for different provinces Sacci said it would also "extensively appeal" for exemptions, such as small or emerging businesses.

Jammie says a national minimum wage would be especially harmful to small businesses. "Big businesses can move towards capital intensive processes – they've got the finances available. That also feeds into the fact that general minimum wage legislation could lead to more unemployment, because small businesses, proportionally speaking, create more jobs than big businesses for the amount of capital involved."

He cautions, however, that exempting smaller business from a minimum wage could create other distortions. "Business could break up into smaller entities to evade having to pay minimum wages."

One, single national minimum wage is not the solution, says Jammie. "If you want to prevent exploitation and have a minimum wage you should look at each industry and the level of skills required for the job. A minimum wage in the manufacturing sector, for example, may be higher [than in another industry]."

Different industries require different wages, he says. "But it's very complex in SA. We're treating a symptom rather than going from the bottom up. The way in which inequality should be addressed is through successful development of education and skills. That's going to take ages and people are impatient." ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

## THIS WEEK:

- >> **Spotlight:** Ascendis banks on wealthy to buck economic trend
- >> **Small Business:** Getting a handle on your VAT
- >> **Life:** Top coffices in Jozi, Durban and Cape Town

CEO INTERVIEW

By Jaco Visser

# Ascendis banks on wealthy to buck economic trend

As South Africa's economy limps on, Ascendis Health is banking on wealthy domestic consumers and expansion into Spain to grow profits and sales. *Finweek* spoke to CEO Dr Karsten Wellner on how the company plans to ride out the local economic downturn.

**A**scendis Health, owner of sports nutrition brands Evox and SSN and garden chemicals brand Efekto, among others, is relying on the so-called "Woolworths effect" in the South African retail industry to boost local sales and profit growth. In addition, the company is turning its attention to Europe's fastest-growing economy, Spain, in a bid to capture a slice of the generic drugs market.

"Woolworths gets a 5% higher customer base every year because people move up the ladder in the Maslow pyramid," says Dr Karsten Wellner, CEO of Ascendis Health. "We see the same with our products. Most of our brands go to the mid-level and higher LSMs."

Wealthier consumers tend not to worry too much about the economy, he explains. This market also tends to be the least affected during an economic slump as these consumers' spending power remains largely intact. SA's economy shrank by 1.3% quarter-on-quarter annualised in the three months through 30 June, according to Stats SA.

The company's consumer division, which includes brands such as Evox, SSN and Bolus, generated an earnings before interest, tax, depreciation and amortisation (EBITDA) margin of 17% for the 12 months ending June, according to Wellner.

"We have strong cash-generative brands in this division," Wellner explains.

The consumer division's 11% organic growth rate was primarily driven by new product launches and expanding the underlying brands' geographic footprint in South Africa, he explains. This growth was generated despite the vitamin and nutritional supplement brand Solal hitting a "little speed bump" with government compliance leading to the recall of R33m worth of products in June, he explains.



Ascendis targets a worldwide consolidated split in revenue of

40%

to consumer medicine,

40%

to pharmaceuticals and

20%

to what it calls phytovet – its pet and garden medicine unit.



## Expanding the pharma division

Nevertheless, the company limits its exposure to clinical medicine and only 10% of its products are subject to the department of health's (DOH's) single-exit price regulations, Wellner says. The DOH sets the price that pharmacies and hospitals can charge for clinical medicine and which medical insurers use to compile their own reference prices.

Ascendis targets a worldwide consolidated split in revenue of 40% to consumer medicine, 40% to pharmaceuticals and 20% to what it calls phytovet – its pet and garden medicine unit.

Boosting its pharma division's EBITDA margin to 18% is its medical devices unit. Ascendis acquired diagnostic products business The Scientific Group for R358m during February after a successful R480m capital raising in the market. This acquisition was incorporated with previously-bought Surgical Innovations and RCA making the new combined unit the country's second-largest supplier of medical devices.

Medical devices have the "highest margins" in the business, according to Wellner.

Going forward, the company's sales and profit growth will be derived from acquisitions, organically and from synergies when combining different business units, he explains.

**Ascendis targets organic growth contributing between 10% and 15% to revenue a year whereas acquisitions would contribute between 20% and 25% of "topline" growth, Wellner says.**

"From synergies and integrating these businesses along the value chain and via bolt-ons with brands and pharmaceutical dossiers, for example, you can achieve another 5% on the bottom line," he says.

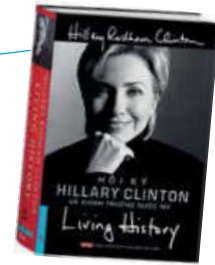


IMAGE: www.ebizradio.com

## GETTING TO KNOW KARSTEN WELLNER

### What was the last book you read?

I read Hillary Clinton's biography, *Living History*, at the beginning of July. I had the opportunity to have lunch with her many years ago in Little Rock, Arkansas, just after her husband was elected president.



### What is your favourite vacation spot?

I love scuba diving and therefore visit northern KwaZulu-Natal often. I also love snow and therefore Europe.



### What do you do to relax?

I do a lot of sport. Back in the day I participated in the Ironman competition and qualified for the World Championships in Hawaii. I don't find the time for it anymore and only do triathlons. Sport is a passion of mine. In a healthy body is a healthy mind.



## Eyeing the rest of the world

As part of the company's acquisition strategy, Ascendis bought a 49% stake in Spanish pharmaceutical producer Farmalider, based in Madrid, in July. Ascendis also holds the option to buy a further 31% of the Spanish company by the end of December 2018 and the balance of 20% by December 2020.

"I won't say all the European markets are attractive," Wellner says. "Spain is attractive. It has the highest GDP growth in Europe at the moment."

What is important to Ascendis is the generic medicines market, he explains. Most of Ascendis's pharmaceutical products are generic medicine, according to him. Spain's generic drugs market has grown on average by 17% compounded over the past four years, he adds.

The Farmalider acquisition also gives Ascendis access to the former's 200 dossiers in SA and the rest of Africa.

"What attracted us to Farmalider is that it is a niche company," Wellner says. "They have a business-to-business model where they develop pharmaceutical dossiers which are the intellectual property of pharmaceutical companies."

These dossiers are sold to medicine producers, such as Sandoz in Switzerland, at a down payment or for royalties, which provides the owner of the dossier with an annuity-like income stream, according to Wellner.

Ascendis is also looking at acquisition opportunities in Australia, even though that country's pharmaceutical market is highly consolidated.

"The market knows from the Aspen results [that] the Australian pharma market is a little bit difficult at the moment," Wellner says, "especially because of price control

by the government."

Ascendis likes markets where it can buy good businesses at a fair price in the public sector as the company shies away from bidding for listed companies, he says.

## The company is turning its attention to Europe's fastest-growing economy. Spain, in a bid to capture a slice of the generic drugs market.

### Vying to buy the market leaders

Focusing the company on consumer medicines brands, instead of pharmaceuticals, mitigates the risk of not being able to pass on inflation, Wellner explains. The company is subject to imported inflation, due to the weakness of the rand, administrative cost increases, such as electricity and fuel, and labour inflation, due to higher wages.

Being able to pass on inflation to consumers is top of the company management's mind when they are considering to buy a new business.

"When we invest in businesses, we try to buy either market leaders, in a niche, or number two or three," Wellner says. "When you have a market position that you dominate, you are the price setter rather than the price taker."

With the company's Efekto brand, where it has between 60% and 70% of the garden phytosanitary market, competitors will look at Ascendis when they decide on pricing their products, Wellner says.

The company decided to list on the JSE in November 2013 in a bid to raise its profile. About 3.5% of its shareholders are international, Wellner says, adding that JP Morgan is one of its shareholders.

"With our international aspirations we may need to raise capital offshore one day," Wellner says. ■

editorial@finweek.co.za

By Jaco Visser

# Getting a handle on your VAT

One of the consequences of starting your own business is that you'll need to comply with the government's tax regulations. For a small business there are mainly three tax types that need to be taken into consideration. Value-added tax (VAT) is the focus of this week's discussion.

**V**alue-added tax (VAT) is one of the government's key sources of tax revenue. In South Africa VAT replaced the General Sales Tax in 1991.

VAT is an indirect tax on consumption in the economy. It is levied at every stage of value addition. For example, when a farmer produces timber and sells it to the paper mill, he'll need to pay VAT. When the paper mill sells finished boxes of photocopier paper to a business, VAT needs to be paid on the sale and the VAT paid to the farmer can be claimed. This essentially means that the VAT ultimately paid is equal to the VAT on the difference between what is asked for the box of paper and what the mill paid for the timber.

"If you conduct an enterprise in or partly in SA and the value of your taxable supplies exceeds or is likely to exceed R1m in a 12-month period, you are liable to register for VAT," says Erina Cooper, associate director for indirect tax at KPMG.

An enterprise can register voluntarily if its taxable supplies exceeds R50 000 over a 12-month period, she says. This may be advisable for a business that has a lot of expenses that attract VAT, especially if such business makes zero-rated supplies, or for a business whose majority of clients or customers are VAT-registered vendors, according to Cooper.

It is important to note that not all products and services sold in SA attract a VAT levy. Certain basic foodstuffs, such as milk, maize meal, fresh fruit and vegetables and eggs; fuel, such as diesel and petrol; and municipal property rates are levied at a zero rate of VAT, according to Sars.

The standard VAT rate of SA is 14%.



**"If you conduct an enterprise in or partly in SA and the value of your taxable supplies exceeds or is likely to exceed R1m in a 12-month period, you are liable to register for VAT."**

When a business computes its input tax, it should consider a few principles before proceeding.

**"The VAT on expenses incurred for purposes of making taxable supplies can be claimed as input tax,"**

Cooper says. "Conversely, VAT incurred for purposes other than that of making taxable supplies cannot be claimed as input tax." Input tax can generally also not be claimed on goods or services acquired for purposes of supplying entertainment (whether for employees or clients). An example of an exception to this is where an employee works away from their usual place of residence and place of work for one or more nights. Input tax can generally also not be claimed on the acquisition of motor cars, such as sedans and double-cab bakkies, whether in terms of a sale or rental. ■

editorial@finweek.co.za

## HOW DO I REGISTER FOR VAT?

According to Sars, a business or individual who becomes obliged to register for VAT, needs to appoint a VAT representative and do the following:

1. Fill in the VAT101 form, which can be downloaded from the Sars website.
2. Get an original letter from your bank confirming your business' bank account or an original bank statement with a stamp of the bank.
3. Copy of the VAT representative's identity document, driver's licence or passport.
4. A recent copy of the business' municipal account or a utility bill stating the address of the business.
5. A recent copy of the VAT representative's municipal account or a utility bill stating the person's address.

## What are the requirements for a tax invoice

SA's VAT system is based on the subtractive or credit-input method, according to Sars. This means that the business, or vendor as Sars refers to it, can deduct the VAT it paid on inputs from the VAT it has to levy on sales. There are two accounting bases that a business can use: the invoice method or the payment method. We'll discuss the most widely-used – the invoice method. In order to claim VAT, the business' tax invoices should adhere to the following requirements from tax legislation:

- The words "tax invoice" should be displayed prominently on the invoice.
- The supplier's name, address and VAT registration number should be included.
- The recipient's name, address and VAT registration number should be included.
- The invoice number and date of issue should be clear.
- A full and detailed description of the goods or services delivered must be provided.
- The quantity of the goods and services delivered must be specified.
- The exclusive price of the goods and services, the VAT amount and the inclusive price (or the VAT-inclusive amount and a statement that it includes VAT and the rate) must be specified.

It is important to note that a vendor can only claim input tax on the acquisition of goods or services where such vendor is in possession of a tax invoice which complies with the VAT Act.

# How do I submit my monthly VAT return?

Sars requires businesses that are registered to compute and pay VAT monthly or bi-monthly, to fill in a VAT201 declaration form. For those businesses that use Sars's electronic eFiling system for submitting returns and making payments, declarations and payments should be made by the last business day of the month following the month of liability. If payments are late, they attract a 10% penalty on the amount that the business owes Sars. Interest is levied on any outstanding amount from the first day of the month following the due date for payment.

Here's how to complete your monthly VAT201 return on eFiling:

4 If you file the VAT201 form as part of a **Voluntary Disclosure Programme** with Sars, indicate it here. If you haven't signed up for such a programme, tick the box N.

5 If the declaration is filed on your business' behalf by a tax practitioner, they should complete the **Tax Practitioner Details** section.

1 The **Vendor Details** section will be pre-populated by Sars.

2 In the **Contact Details** section the person filling in the VAT201 form must supply their details.

3 Fill in the date in the **Declaration** section.

9 Capture the value of your business' **zero-rated export sales**.

10 Capture the value of **exempt and non-exempt** supplies.

11 Capture the value of **accommodation** supplied for a period longer than 28 days as well as the value of accommodation supplied for a period not exceeding 28 days.

6 Capture the value of your business' taxable sales, **excluding capital goods and services** sold. The amount to be captured should include the VAT your business levied.

7 Capture the value of **capital goods or services** sold. The amount to be captured should include the VAT your business levied.

8 Capture the value of your business' **zero-rated sales, excluding exports**.

12 Capture the **input tax value** of capital goods and services supplied to your business.

13 Capture the **input tax value** of capital goods imported by your business.

14 Capture the **input tax value** of non-capital goods and services supplied to your business.

15 Capture the **input tax value** of other goods imported.

# Step into my coffice

The coffee shop that doubles as an office for its patrons is so common these days there's even a neologism for it – the coffice.

If you want good WiFi, great coffee and venues that are perfect for meetings and networking, look no further than some of these spots in Jozi, Cape Town and Durban.



## **Hard Pressed Café**

### **4 Bree Street, Cape Town**

This eclectic coffee shop and vinyl store, situated in the ultra-modern Portside Tower, is an excellent spot for informal meetings with clients or as your mobile office for the day. The coffee is delicious and well priced, with some interesting combinations like the Wham (double shot espresso, butter, coconut oil, steamed milk). The menu has all sorts of banting-friendly options, including an incredible cheesecake.

But what makes this spot unique is the atmosphere. Owner Yaron Wiesenbacher is hands-on, friendly and it's clear he loves what he does. The location is also a winner as there's a fair amount of on-street parking in this area of Bree Street – something you can't say about the rest of the city centre.

## **Motherland Coffee**

### **Shop G22, The Zone, Rosebank**

Don't you love those logos with rays shining out of Africa? They're on the mugs and cups of Motherland's delicious brews and blends, all hailing from this continent. This is a quiet and nurturing space in which to work, and the staff are happy for you to do that over a very special Ethiopian treat. (Some days you can be the only person there, with your avo on toast.) The muzak might not be to your taste, but that's why you brought those earphones. Bonus: it's close to the Rosebank Gautrain station.



## **Cafe Picobella Trattoria**

### **66 4th Ave, Melville**

Expect to encounter poets and scriptwriters galore in this unpretentious, calming atmosphere among the owners' collection of plaster Madonna statuettes and pictures. Take up a restaurant table as a workspace in- or outdoors. Harmless Italian jazzy sounds are good working tunes. The Illy espresso coffees from the bar are excellent and the kitchen makes great filter coffees. Breakfasts are available all day and there are snack platters, as well as perfect work fuel in the form of a thin, crispy-based pizza called Al Cantina, with no messy sauce and loads of rocket and parma ham. The place gives off a strange calming feeling, no matter what the deadline. Everyone smiles.

## **The Whippet**

### **Corner 4th Ave and 7th Street, Linden**

This restaurant's chef produces lovely food and the breakfasts are famously brilliant. Everybody, but everybody, is working inside on weekdays; TV production folk and authors will surround you. There's a serious air to the place and you may feel guilty just having a good lunch. The coffee is sublime, specially blended by the masters at Doubleshot in Braamfontein. (You can buy it by the packet.) Homebakes are delicious: try the blue velvet cupcakes, the melktart, and any of the excellent mince things. The area outdoors features a little more levity.

## **Open**

### **4th Floor, The Main Change, 20 Kruger Street, Maboneng**

This place works in a different way but, my gosh, it works. It gets our vote as the very best coffice for a wide choice of different spaces, styles and levels of lighting. You can have things printed out, read the real books along the library wall, and even play a round of mini golf on a contoured carpet green, where two wire-and-bead sheep watch your progress placidly. This, friends, is a networker's paradise. Things just happen without you even trying. The catch is that you pay a sort of membership, by the month or by the day even – a bit like at the gym – but it's worth it for the contacts alone. Right in the centre is the coffee island, but it's not the stuff caffeine dreams are made of. Cast your eyes up for inspiration and be entranced by Kentridge-style figures made of lamp flex. This feels like the future.





## Father Coffee

### Shop 2, 73 Juta Street, Braamfontein

This roastery and espresso bar is the perfect place to get cracking on a deadline. The seat arrangement and table height are work-conducive, kind of scholarly in a cool, Scandi-efficient way. The father himself, Andy, often sits out on the front stoep, but his hipster son is the coffee expert with the very best, shiny equipment. Of course, the coffees are outstanding – you have only to check the crema on the espresso. Accompany your cups with pecan-nut tart slices or Florentines, but be warned: they go fast. A good time to be productive is morning or midday, before the lazy afternoon sun slants in.



## The Bean Green Coffee Roastery

### 147 Helen Joseph (Davenport) Road, Glenwood, Durban

Owned by father-daughter team Peter Winter and award-winning daughter/barista Mel, The Bean serves up organic Ethiopia coffee, roasted in small batches on the premises. Try their signature The Bluff Bru. You'll find free WiFi, mellow tunes from an actual record player, and triple chocolate brownies. Good for lazy, late morning meetings with your quirkier client.



## Slow

### Opposite Sandton Gautrain station, Rivonia Road

There's no arguing that this luxurious spot is the most useful in this area, especially for big business. From the station you can get to the airport, Rosebank or the city. (You need to have a BA or Comair card, be an FNB Platinum holder with an air ticket, or bank with RMB.) The coffees are superbly hot and perfect, the service excellent, and the spaces perfect for working. There are plenty of healthy wheatgrass drinks too. Snag a cubicle for intense work, or settle in the extra meeting- and workspaces downstairs. Slogging has never felt this pampered.

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

*Did one of your favourite coffees not crack a nod? Tell us about it at [editorial@finweek.co.za](mailto:editorial@finweek.co.za). Portions of this article were originally published in Eat Out magazine.*

## on the money quiz & crossword

New week, new quiz. This week's winner will receive a copy of *Innovation: Shaping South Africa through science* by Sarah Wild. Please send your answers to [editorial@finweek.co.za](mailto:editorial@finweek.co.za) and include your name, surname and contact number.

- True or false?** England is the first host nation to be eliminated at the pool stage of the Rugby World Cup.
- What is the name of the *Mail & Guardian's* new editor-in-chief?
- Diezani Alison-Madueke is Nigeria's former minister of:
  - Industry, trade and investment
  - Petroleum
  - Education
- What is the name of the French economist that spoke about SA's economy in Soweto on 3 October?
- What unique event is taking place in Johannesburg between 1 and 31 October that has converted Sandton into a car-free zone?
- True or false?** Tbilisi is the capital of Georgia.
- There is speculation that archaeologists have discovered Nefertiti's tomb. It is believed that the ancient Egyptian queen is sharing it with:
  - Tutankhamun
  - Cleopatra
  - Amenhotep III
- At which of these banks can South Africans not yet renew their passports and smart IDs?
  - ABSA
  - FNB
  - Nedbank
  - Standard Bank
- Which English Premier League team recently fired its manager, Brendan Rogers?
- True or false?** South Africa has received three nominations for the 2015 International Emmy Awards.

### CRYPTIC CROSSWORD

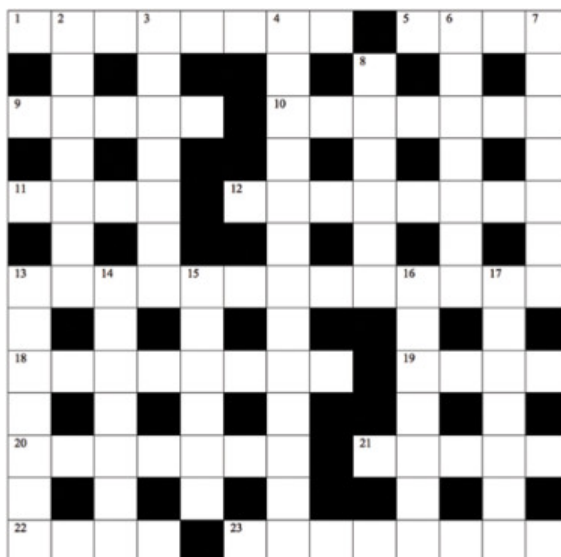
603 JD

#### ACROSS

- Mark is English pioneer (8)
- It's not put in by family member (4)
- Condition prevailing in the country (5)
- Transport for half crazy proposer (7)
- Crumbly cheese barrow (4)
- Commander and I act pious, shortly ruffling backs of heads (8)
- Follow on with life after death? (6,7)
- Holler at coy tutor for a change (3,3,2)
- Happy to be at school queueing for some tuck (4)
- A person of attraction has nothing on a dynamo (7)
- Ancient poem about Lord Nelson (5)
- No German sounds one over the eight (4)
- Lamb, say, housed in sties, oddly enough (8)

#### DOWN

- Unlikely to be a stranger to the end (7)
- Rain in Spain, we know - rain too, perhaps, in Canada (7)
- Underhand charges paid annually (13)
- Do from the start come up with soothing words (7)
- Rats to English tabloids! (7)
- Accountant into criminal practice (6)
- Set the dog on him - he's not a well fellow (4,3)
- One making cold call with no information (7)
- First experience in sauna developed into sickness (6)
- Opinion overlapping with partner's perfectly (7)
- Lacking determination, starts too late joining in speculation (7)



#### Solution to Crossword NO 602 JD

**ACROSS:** 1 Fun and games; 9 One-step; 10; Rarer; 11 Issue; 12 Talking; 13 Mighty; 15 Fright; 18 Tessera; 20 Tot up; 22 Miami; 23 Elector; 24 Nothing dull **DOWN:** 2 Users; 3 Artist; 4 Deputy; 5 April; 6 Earring; 7 Not in my time; 8 Bright spark; 14 Gestapo; 16 Retread; 17 Cavern; 19 Edith; 21 Total

# On margin

## Why Rugby stands out from other sports

The difference between rugby and most other sports? After being called for a penalty, six-foot-nine, 260-pound, 22-year-old South African forward Lood de Jager said to the referee: "Sorry, sir."

## How to extinguish a blaze

Three professors – a physicist, a chemist, and a statistician – are called in to see their dean. Just as they arrive the dean is called out of his office, leaving the three professors there. The professors see with alarm that there is a fire in the bin.

The physicist says: "I know what to do! We must cool down the materials until their temperature is lower than the ignition temperature and then the fire will go out."

The chemist says: "No! No! I know what to do! We must cut off the supply of oxygen so that the fire will go out due to lack of one of the reactants."

While the physicist and chemist debate what course to take, they are both alarmed to see the statistician running around the room starting

other fires. They both yell: "What are you doing?!"

To which the statistician replies: "Trying to get an adequate sample size."

## If trolls wrote password security questions...

- What is the name of your least favourite child?
- In what year did you abandon your dreams?
- What is the maiden name of your father's mistress?
- At what age did your childhood pet run away?
- What was the name of your favourite unpaid internship?
- In what city did you first experience ennui?
- What is your ex-wife's newest last name?
- What sports team do you fetishise to avoid meaningful discussion with others?
- What is the name of your favourite cancelled TV show?
- What was the middle name of your first rebound?
- On what street did you lose your childlike sense of wonder?
- When did you stop trying?



"Not another @#%&\$ townhouse development!"



## Wallabies trample Roses

Recently Rugby World Cup hosts England crashed out of the tournament after a 33-13 loss to Australia.

**Piers Morgan** @piersmorgan

Memo to everyone involved with England rugby: stop the hand-wringing, inquests & apologies. You weren't good enough. End. #RWC2015

**Rugby Banter Page** @RugbyBanterPag3

That sound you currently hear is the sound of thousands of knockout stage game tickets being put on eBay as we speak.

**Sean Wilson** @SimplySean\_

First time the host nation hasn't made it out of the group stage in a World Cup. England rugby going full Bafana.

**slojo** @DarrenRavens

Our thoughts today are with the British people, enduring chaos in these tumultuous times of 5p plastic bags.



"Economists are all too often preoccupied with petty mathematical problems of interest only to themselves. This obsession with mathematics is an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in."

– Thomas Piketty, French economist and author (1971-)



CHANNEL 410



DStv

**Do you want to learn how to be part of the billionaire generation?  
Watch Kicking Doors with Sbu Leope every Tuesday evening to find out!**

**#KickingDoors410**



Kicking Doors with Sbu Leope breaks down boundaries, resets the rules, makes a difference and develops future leaders. The show is designed to educate and inspire growth amongst the 'Billionaire Generation' in Africa, offering a practical, tactical, focused 30-minute window into the world of Africa's leading minds.

**Every Tuesday: 20h30 CAT**

CNBC Africa Headquarters: +27 11 384 0300 | Nigeria Bureau: +234 806 304 0692 | Kenya Bureau: +254 202 252 150

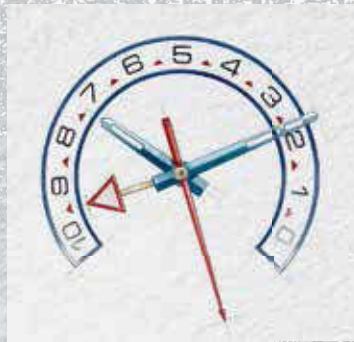
Visit: [www.cnbc africa.com](http://www.cnbc africa.com) Follow [@cnbc africa](https://twitter.com/cnbcafrica)



▶ ▶ ▶ FIRST IN BUSINESS WORLDWIDE.

AN **ABN** COMPANY





*Countdown display*

## **Yacht-Master II** / yacht • mas

• ter • two /:

1. A chronograph created specifically for yacht racing.
2. Its unique countdown feature with mechanical memory is programmable from 10 minutes to one.
3. Designed for legibility, no matter what the conditions.
4. Characterised by the Ring Command bezel, a patented bezel that interacts with the watch's movement.
5. An unprecedented combination of complexity and simplicity.
6. The Rolex Way.



# ROLEX

*More Rolex watchmaking at* [ROLEX.COM](https://www.rolex.com)